

Dollar Tree, Inc. (DLTR)

\$91.55 (As of 01/17/20)

Price Target (6-12 Months): **\$78.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 12/16/19)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:A

Value: C

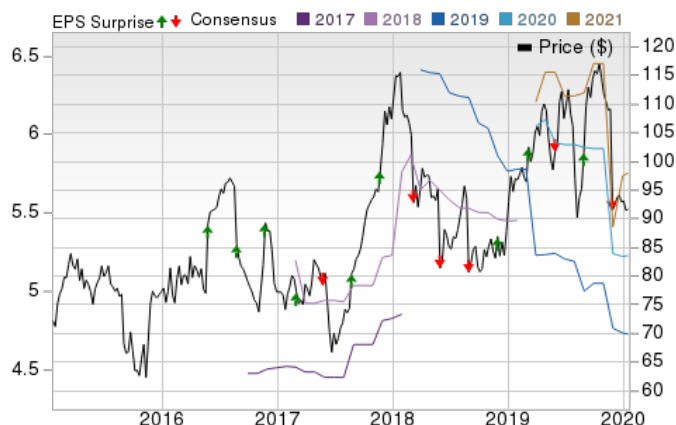
Growth: A

Momentum: B

Summary

Dollar Tree declined and underperformed the industry in the past three months. The stock was hit hard after the company's dismal earnings performance in third-quarter fiscal 2019 and a soft outlook. Earnings lagged the Zacks Consensus Estimate and declined year over year in the fiscal third quarter due to cost deleverage and soft margins. The company reported the seventh straight quarter of soft margins due to elevated freight and distribution costs, increased sale of low-margin merchandise and higher shrink. Further, management lowered the outlook for fiscal 2019 on anticipated impacts from tariffs. However, the company's robust comps trend, with strength in Dollar Tree and Family Dollar banners, is likely to continue. Moreover, its strategic initiatives like the Dollar Tree Plus! test and store-optimization efforts are encouraging.

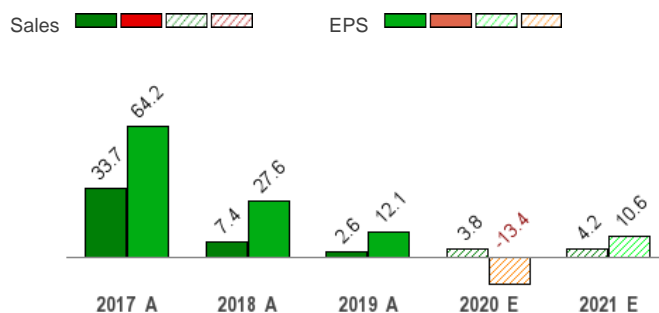
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$119.71 - \$88.26
20 Day Average Volume (sh)	2,716,212
Market Cap	\$21.7 B
YTD Price Change	-2.7%
Beta	0.45
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Retail - Discount Stores
Zacks Industry Rank	Top 18% (45 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-3.6%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	03/04/2020
Earnings ESP	-5.0%
P/E TTM	18.7
P/E F1	19.4
PEG F1	2.0
P/S TTM	0.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	6,047 E	6,003 E	6,014 E	6,681 E	24,699 E
2020	5,809 A	5,741 A	5,746 A	6,405 E	23,698 E
2019	5,554 A	5,526 A	5,539 A	6,205 A	22,823 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.22 E	\$0.89 E	\$1.17 E	\$1.99 E	\$5.22 E
2020	\$1.14 A	\$0.76 A	\$1.08 A	\$1.77 E	\$4.72 E
2019	\$1.19 A	\$1.15 A	\$1.18 A	\$1.93 A	\$5.45 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

Founded in 1986 and headquartered in Chesapeake, VA, Dollar Tree Inc. is an operator of discount variety stores offering merchandise and other assortments. Its stores successfully operate in major metropolitan areas, mid-sized cities and small towns. The company offers a wide range of quality everyday general merchandise in many categories, including housewares, seasonal goods, candy and food, toys, health and beauty care, gifts, party goods, stationery, books, personal accessories, and other consumer items. Its stores are supported by a nationwide logistics network and distribution centers.

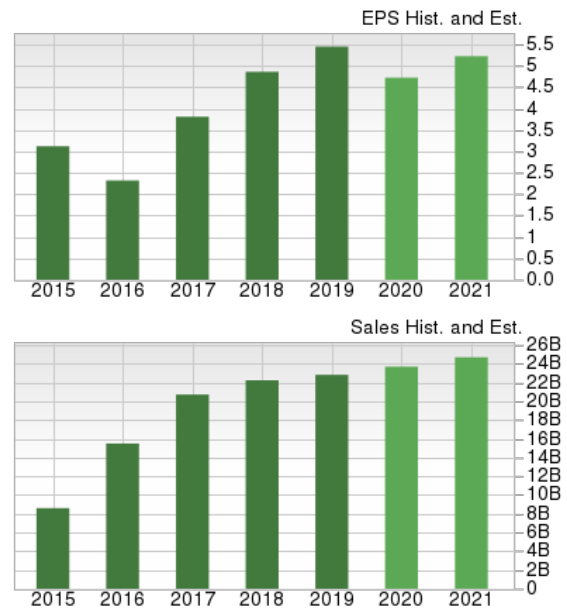
Dollar Tree also owns an e-commerce platform – DollarTree.com – which sells its merchandise in bulk to individuals and small businesses as well as organizations. Through its online platform, the company advertises its in-store events and showcases its special and seasonal promotions for featured products. Further, it acquired Family Dollar Stores, Inc. on July 6, 2015.

The company operates in two reporting business segments: Dollar Tree and Family Dollar.

Dollar Tree: Being the major operator of discount variety stores, this segment offers merchandise at the fixed price point of \$1.00. The segment has nearly 11,447 stores operating under the Dollar Tree and Dollar Tree Canada banners, 12 distribution centers in the United States and two in Canada. Dollar Tree stores primarily range from 8,000 - 10,000 selling square feet.

Family Dollar: This segment operates general merchandise discount retail stores with competitively-priced merchandise in the neighborhood stores. It has nearly 7,815 stores, which sell merchandise at prices ranging from \$1.00 to \$10.00. These stores primarily range from 6,000 - 8,000 selling square feet. The segment includes store operations under the Family Dollar brand and 11 distribution centers.

As of Nov 2, 2019, Dollar Tree operated 15,262 stores in 48 states and five Canadian provinces.



Reasons To Sell:

▼ **Soft Q3 Earnings, Stock Underperforms:** Shares of Dollar Tree have declined 21.5% in the past three months, against the industry's growth of 1.1%. This is mainly due to its earnings results in third-quarter and lowered view for fiscal 2019. Dollar Tree's earnings missed the Zacks Consensus Estimate and declined year over year on cost deleverage and soft margins.

▼ **Higher Costs Weigh on Margins:** Dollar Tree continued to witness soft margins in the fiscal third quarter due to higher costs. Notably, this was the seventh straight quarter of soft gross and operating margin performance. In the reported quarter, gross margin contracted 50 basis points (bps) due to increased freight and distribution costs, higher sales of low-margin consumable merchandise primarily in the Family Dollar segment, and increased shrink. Further, operating margin declined 80 bps driven by the soft gross margin and higher SG&A costs. SG&A expenses rose 30 bps, thanks to higher operating and corporate expenses for the consolidation of store support centers, costs related to asset disposals for closed stores, and slight increase in depreciation expenses. Additionally, Dollar Tree expects incremental pressure on merchandise margin due to lower-margin consumables growing faster than planned; payroll costs in distribution centers; and increased run rates for repairs and maintenance, utilities, and depreciation, to affect results for the fiscal fourth quarter.

▼ **Tariffs and Costs Hurt Outlook:** Based on the impacts of the Section 301 tariffs, which were announced prior to second-quarter fiscal 2019 earnings results, management issued guidance for the fiscal fourth quarter, which is lower than the previously implied one. Further, it lowered the outlook for fiscal 2019. If implemented, the company expects the Section 301 tariffs to increase cost of goods sold by \$19 million (or 6 cents per share) in fourth-quarter fiscal 2019. Driven by the tariff impacts along with the aforementioned cost woes, the company projects net sales of \$6.33-\$6.44 billion in the fiscal fourth quarter. Further, it expects earnings per share, including tariff costs, of \$1.70-\$1.80 for the quarter.

For fiscal 2019, it projects consolidated net sales of \$23.62-\$23.74 compared with previously mentioned \$23.57-\$23.79 billion. It now envisions earnings of \$4.66-\$4.76 per share versus \$4.90-\$5.11 stated earlier. This includes discrete costs of 28 cents per share, store closure related costs of 5 cents and tariff-related costs of 6 cents.

▼ **Competitive Pressure:** Dollar Tree operates in the highly competitive discount retail merchandise sector. The company faces stiff competition from Wal-Mart and Dollar General that will probably continue to weigh on its results. The competitors have a larger number of stores, greater market presence, brand recognition and financial resources.

▼ **Risks of Sourcing Merchandise from Overseas Markets:** A significant portion of Dollar Tree's merchandise is imported from countries outside the U.S. such as China and other Asian countries. Consequently, the company is exposed to political, social and economic risks associated with operations in these countries. Further, an adverse movement in foreign currency exchange rates may dent the company's operational performance.

Dollar Tree cut view for fiscal 2019 on headwinds related to higher costs and tariffs. It expects net sales of \$23.62-\$23.74 billion for fiscal 2019, with earnings of \$4.66-\$4.76 per share.

Risks

- **Impressive Comps & Sales Performance:** Dollar Tree reported strong top line performance in third-quarter fiscal 2019, wherein sales topped the Zacks Consensus Estimate and improved year over year. This marked the fourth straight quarter of sales beat for the company. Further, it has been displaying remarkable comps growth for the past few quarters. Enterprise same-store sales (comps) grew 2.5%, backed by a 2.8% improvement in Dollar Tree and a 2.3% increase in Family Dollar. This marked the 47th straight quarter of comps growth for the Dollar Tree segment. The company's store optimization efforts and ongoing sales management initiatives mainly aided sales and transaction counts across both banners. Notably, the Dollar Tree and Family Dollar brands reported solid sales in the quarter. The company anticipates enterprise comps growth in low-single-digits for fourth-quarter and fiscal 2019.
- **Dollar Tree Store Initiatives:** The Dollar Tree segment remains keen on delivering ever-changing and new product ideas that drive customer engagement. This has led to increases in both traffic and ticket at stores, with traffic slightly outpacing the ticket increase in the fiscal third quarter. Among the variety of initiatives the company is undertaking, it added the Hallmark cards section across all Dollar Tree chain stores in 2018, which continues to offer value and is accretive to the segment's sales. In 2019, it introduced the Crafters Square program in more than 600 Dollar Tree stores. This program includes new and expanded selection of arts and craft supplies all priced at \$1. Additionally, the company is on track to roll out Snack Zones across the chain, which is attracting customers. In third-quarter fiscal 2019, the company introduced 512 Dollar Tree Snack Zones, bringing the total to 2,087 Snack Zones across the chain.

The company is also testing the impact of merchandise and categories with different price points at 115 Dollar Tree brand stores since June 2019. The test – known as Dollar Tree Plus! – is basically not intended toward raising prices of products in the Dollar price point but adding new items and categories with the higher price points to boost margins and sales. The company is testing merchandise at price points of \$2, \$3, \$4 and \$5, which are displayed in end caps clearly branded as Dollar Tree Plus! to minimize confusion with the dollar value offerings that are familiar to customers. As part of the tests, the company is leveraging Family Dollar and Dollar Tree distribution center systems and combined merchandise to efficiently get the new products into Dollar Tree stores without disrupting normal operations.

- **Family Dollar Integration – Renovations and Re-Banner in Focus:** Dollar Tree is on track with the integration of Family Dollar that was acquired in July 2015. Notably, sales from the Family Dollar banner represented 46.5% of the company's consolidated sales in third-quarter fiscal 2019. Further, the company is undertaking significant store renovation initiatives for Family Dollar to attract more customers. As part of its store optimization program for the Family Dollar brand, the company is rolling out H2 — a latest model for the new and renovated Family Dollar stores internally. These renovations are likely to boost traffic at stores, thus lifting average comps. The company had nearly 200 H2 stores at the beginning of fiscal 2019. During the fiscal third quarter, it completed the renovation of 247 Family Dollar to the H2 format. Driven by the robust momentum in Family Dollar stores due to these initiatives, the company targets 1,150 Family Dollar H2 renovations to occur in fiscal 2019. Further, it now plans more than 1,000 Family Dollar H2 renovations for fiscal 2020.

Moreover, it is on track to close underperforming Family Dollar stores. As already stated, the company closed 30 Family Dollar stores in third-quarter fiscal 2019, as part of its store optimization program for Family Dollar. It had earlier planned 390 Family Dollar store closures for fiscal 2019. Further, the company re-bannered 39 Family Dollar stores into Dollar Tree, for a total of 463 projects during the quarter. It plans to re-banner about 200 Family Dollar stores to Dollar Tree locations in fiscal 2019.

Last Earnings Report

Dollar Tree Q3 Earnings Miss, FY19 View Cut

Dollar Tree has reported third-quarter fiscal 2019 results, wherein earnings missed the Zacks Consensus Estimate but sales beat the same. Moreover, the company lowered its guidance for fiscal 2019 based on anticipated tariffs.

Quarter in Detail

Dollar Tree's earnings declined 8.5% to \$1.08 per share and missed the Zacks Consensus Estimate of \$1.12. The bottom line was near the low-end of the company's guidance of \$1.07-\$1.16 per share.

Consolidated net sales rose 3.7% to \$5,746.2 million and surpassed the Zacks Consensus Estimate of \$5,735 million. Enterprise same-store sales (comps) grew 2.5%. Comps growth was backed by a 2.8% improvement in Dollar Tree and a 2.3% increase in Family Dollar. This marked the 47th straight quarter of comps growth for the Dollar Tree segment.

Quarterly gross profit dipped 1.9% year over year to \$1,704.5 million, while gross margin contracted 50 bps to 29.7%. The margin contraction mainly resulted from increased freight and distribution costs, higher sales of low-margin consumable merchandise primarily in the Family Dollar segment, and increased shrink.

Selling, general and administrative (SG&A) expenses rose 30 bps to 23.5% of sales, thanks to higher operating and corporate expenses for the consolidation of store support centers, costs related to asset disposals for closed stores, and slight increase in depreciation expenses. This was partly offset by lower payroll and benefits expenses.

Operating income declined 7.6% to \$358.4 million. Driven by the soft gross margin and higher SG&A costs, adjusted operating margin contracted 80 bps to 6.2%.

Balance Sheet

Dollar Tree ended the quarter with cash and cash equivalents of \$433.7 million, net merchandise inventories of \$3,882.9 million, net long-term debt (excluding current maturities) of \$3,520.2 million, and shareholders' equity of \$6,121.3 million.

In the fiscal third quarter, the company bought back about 125,048 shares for \$11.6 million. With this, it has nearly \$800 million remaining under the current share buyback plan.

Store Update

In third-quarter fiscal 2019, Dollar Tree opened 165 stores, expanded or relocated 15 outlets, and shuttered 30 Family Dollar as well as 12 Dollar Tree stores. The Family Dollar store closures were in sync with the company's previously announced store optimization plan. Moreover, it re-bannered 39 Family Dollar stores into Dollar Tree. It also completed the renovation of 247 Family Dollar stores to the H2 format. As of Nov 2, 2019, Dollar Tree operated 15,262 stores in 48 states and five Canadian provinces.

Driven by the robust momentum in Family Dollar stores due to these initiatives, the company expects 1,150 Family Dollar H2 renovations to occur in fiscal 2019. Further, it now plans more than 1,000 Family Dollar H2 renovations for fiscal 2020.

Guidance

Based on the impacts of the Section 301 tariffs, which were announced prior to second-quarter fiscal 2019 earnings results, management issued guidance for the fiscal fourth quarter, which is lower than the previously implied one. Further, it lowered the outlook for fiscal 2019. If implemented, the company expects the Section 301 tariffs to increase cost of goods sold by \$19 million (or 6 cents per share) in fourth-quarter fiscal 2019.

Apart from the aforementioned impacts of tariffs, Dollar Tree expects incremental pressure on merchandise margin on lower-margin consumables growing faster than planned; payroll costs in distribution centers; and increased run rates for repairs and maintenance, utilities, and depreciation, to affect results for the fiscal fourth quarter. Consequently, it projects net sales of \$6.33-\$6.44 billion, with a low-single-digit increase in enterprise same-store sales in the fiscal fourth quarter. Further, it expects earnings per share, including tariff costs, of \$1.70-\$1.80 for the quarter.

For fiscal 2019, it projects consolidated net sales of \$23.62-\$23.74 compared with previously mentioned \$23.57-\$23.79 billion. The company anticipates low-single-digit comps growth along with 1.1% rise in square footage. It now envisions earnings of \$4.66-\$4.76 per share versus \$4.90-\$5.11 stated earlier. This includes discrete costs of 28 cents per share, store closure related costs of 5 cents and tariff-related costs of 6 cents.

Quarter Ending 10/2019

Report Date	Nov 26, 2019
Sales Surprise	0.20%
EPS Surprise	-3.57%
Quarterly EPS	1.08
Annual EPS (TTM)	4.91

Valuation

Dollar Tree shares are down 3.2% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Retail-Warehouse sector are up 36.3% and 18.3%, respectively.

The S&P 500 index is up 23.9% in the past year.

The stock is currently trading at 17.58X forward 12-month earnings, which compares to 23.49X for the Zacks sub-industry, 25.66X 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 32.81X and as low as 13.36X, with a 5-year median of 18.67X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$78 price target reflects 14.98X forward 12-month earnings.

The table below shows summary valuation data for DLTR

Valuation Multiples - DLTR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.58	23.49	25.66	19.2
	5-Year High	32.81	23.75	26.23	19.34
	5-Year Low	13.36	17.95	19.07	15.17
	5-Year Median	18.67	20.04	22.95	17.44
P/S F12M	Current	0.88	1.38	1.09	3.57
	5-Year High	1.81	1.39	1.11	3.57
	5-Year Low	0.7	0.94	0.8	2.54
	5-Year Median	0.93	1.12	0.91	3
EV/EBITDA TTM	Current	6.2	19.12	15.47	12.12
	5-Year High	17.16	19.31	15.47	12.86
	5-Year Low	5	11.12	10.37	8.48
	5-Year Median	11.31	13.47	12.38	10.67

As of 01/17/2020

Industry Analysis Zacks Industry Rank: Top 18% (45 out of 254)



Top Peers

Target Corporation (TGT)	Outperform
Big Lots, Inc. (BIG)	Neutral
Burlington Stores, Inc. (BURL)	Neutral
Costco Wholesale Corporation (COST)	Neutral
Dollar General Corporation (DG)	Neutral
Ross Stores, Inc. (ROST)	Neutral
The TJX Companies, Inc. (TJX)	Neutral
Tuesday Morning Corp. (TUES)	Neutral

Industry Comparison Industry: Retail - Discount Stores				Industry Peers		
	DLTR Underperform	X Industry	S&P 500	DG Neutral	ROST Neutral	TGT Outperform
VGM Score	A	-	-	C	B	B
Market Cap	21.67 B	18.35 B	24.65 B	40.22 B	42.23 B	59.25 B
# of Analysts	6	9	13	23	11	12
Dividend Yield	0.00%	0.83%	1.73%	0.81%	0.87%	2.26%
Value Score	C	-	-	C	C	B
Cash/Price	0.02	0.03	0.04	0.01	0.03	0.02
EV/EBITDA	11.92	16.68	14.11	19.62	18.56	10.74
PEG Ratio	1.98	2.18	2.08	2.08	2.45	2.44
Price/Book (P/B)	3.54	5.13	3.39	6.05	12.89	5.13
Price/Cash Flow (P/CF)	4.63	17.20	13.81	20.32	22.74	11.40
P/E (F1)	19.40	23.79	19.19	23.75	25.75	18.42
Price/Sales (P/S)	0.92	0.82	2.69	1.48	2.68	0.76
Earnings Yield	5.16%	4.20%	5.21%	4.21%	3.88%	5.43%
Debt/Equity	1.33	1.33	0.72	1.57	0.89	1.10
Cash Flow (\$/share)	19.78	6.08	6.94	7.77	5.18	10.25
Growth Score	A	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	18.83%	11.35%	10.56%	13.32%	17.25%	7.70%
Proj. EPS Growth (F1/F0)	-13.33%	8.76%	7.57%	11.43%	7.28%	17.80%
Curr. Cash Flow Growth	163.96%	12.70%	14.73%	25.19%	20.22%	5.59%
Hist. Cash Flow Growth (3-5 yrs)	43.00%	7.44%	9.00%	8.34%	12.95%	2.16%
Current Ratio	1.09	1.12	1.24	1.12	1.26	0.83
Debt/Capital	57.13%	57.13%	42.99%	61.12%	47.07%	52.42%
Net Margin	-6.82%	4.18%	11.14%	6.09%	10.47%	4.18%
Return on Equity	20.85%	24.22%	17.16%	25.53%	49.88%	28.22%
Sales/Assets	1.30	1.87	0.55	1.38	1.87	1.86
Proj. Sales Growth (F1/F0)	3.83%	4.16%	4.16%	8.27%	6.75%	4.16%
Momentum Score	B	-	-	F	A	F
Daily Price Chg	0.52%	-0.19%	0.27%	-0.18%	-0.31%	0.52%
1 Week Price Chg	-1.81%	-0.71%	0.39%	-1.40%	3.30%	-0.02%
4 Week Price Chg	-0.60%	0.20%	2.95%	0.63%	2.19%	-9.15%
12 Week Price Chg	-20.80%	4.30%	7.76%	-3.02%	6.56%	6.05%
52 Week Price Chg	-3.19%	14.50%	22.29%	40.72%	29.60%	68.55%
20 Day Average Volume	2,716,212	1,232,801	1,536,375	1,767,002	1,443,955	4,992,085
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.06%	-0.40%
(F1) EPS Est 4 week change	-0.16%	0.00%	0.00%	0.02%	0.06%	-0.40%
(F1) EPS Est 12 week change	-6.22%	0.64%	-0.40%	0.64%	1.57%	3.29%
(Q1) EPS Est Mthly Chg	-0.35%	0.00%	0.00%	-0.23%	0.27%	-1.89%

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	A
Momentum Score	B
VGM Score	A

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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