

Amdocs Limited (DOX)

\$61.29 (As of 08/11/20)

Price Target (6-12 Months): **\$64.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/03/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: C

Summary

Amdocs' second-quarter 2020 earnings and revenues increased year over year. The company won a number of deals in the reported quarter including an agreement to support Bell Canada's cloud-native strategy, an enterprise digital-transformation project in the Philippines and a contract from Three UK. The company continues to aid digital, media and network transformations of its clients, which is improving the revenue-growth rate. Solid demand for DigitalONE is expected to be a key growth driver. The acquisition of Openet will rapidly expand Amdocs' footprint in 5G. However, the consolidation trend in the U.S. telecom industry may significantly affect the company. Furthermore, disruptions caused by the coronavirus, stiff competition and unfavorable forex are concerns. Amdocs' shares have underperformed the industry year to date.

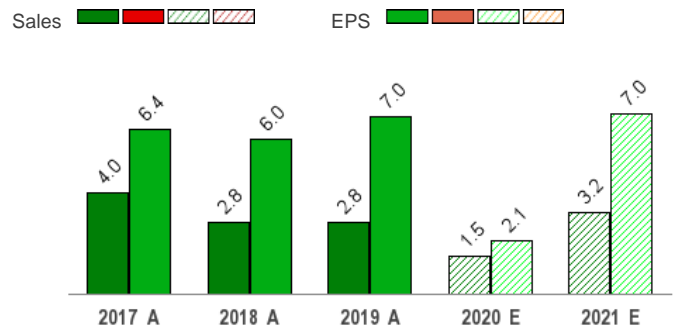
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|---|
| 52 Week High-Low | \$77.29 - \$44.05 |
| 20 Day Average Volume (sh) | 663,187 |
| Market Cap | \$8.3 B |
| YTD Price Change | -15.1% |
| Beta | 0.67 |
| Dividend / Div Yld | \$1.31 / 2.1% |
| Industry | Computers - IT Services |
| Zacks Industry Rank | Bottom 32% (171 out of 253) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|------------|
| Last EPS Surprise | 1.9% |
| Last Sales Surprise | 1.6% |
| EPS F1 Est- 4 week change | 1.3% |
| Expected Report Date | 11/10/2020 |
| Earnings ESP | 0.0% |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|---------|---------|---------|---------|---------|
| 2021 | 1,055 E | 1,065 E | 1,075 E | 1,085 E | 4,281 E |
| 2020 | 1,042 A | 1,048 A | 1,026 A | 1,034 E | 4,150 E |
| 2019 | 1,012 A | 1,020 A | 1,025 A | 1,030 A | 4,087 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|----------|
| 2021 | \$1.10 E | \$1.16 E | \$1.14 E | \$1.21 E | \$4.71 E |
| 2020 | \$1.06 A | \$1.08 A | \$1.07 A | \$1.19 E | \$4.40 E |
| 2019 | \$0.98 A | \$1.06 A | \$1.19 A | \$1.08 A | \$4.31 A |

*Quarterly figures may not add up to annual.

| | |
|---------|------|
| P/E TTM | 14.3 |
| P/E F1 | 13.9 |
| PEG F1 | 1.6 |
| P/S TTM | 2.0 |

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/11/2020. The reports text is as of 08/12/2020.

Overview

Founded in 1988 and headquartered in Chesterfield, MO, Amdocs Limited (DOX) is one of the leading providers of customer care, billing and order management systems for communications and Internet services.

The company offers amdocsONE, a line of services designed for various stages of a service provider's lifecycle. Moreover, it provides advertising and media services for media publishers, TV networks, video streaming providers, advertising agencies and service providers.

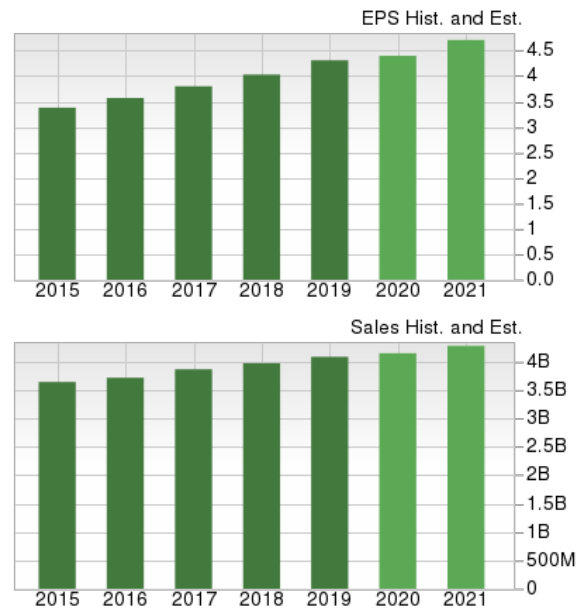
It also provides managed, quality engineering, data and intelligence, cloud enablement, digital business operation, autonomous network service assurance and advisory services. Additionally, Amdocs offers mobile financial services to service providers and financial institutions; and the BriteBill — a multi-channel bill presentment platform — focused on contextual and personalized customer engagements.

The company's technology is built on the following principles:

Design-led, API-enabled, Cloud flexibility, Microservices, Scalability, Reliability, Modularity, Upgradability and Backwards Compatibility, Virtualization, and Open Source software.

In fiscal 2019, the company generated revenues of \$3.97 billion. Region wise, the company generated 64.2% of revenues from North America, 14.4% from Europe and 21.4% from Rest of the World.

The company faces competition from BSS/OSS systems providers like Oracle, Salesforce and SAP; system integrators and providers of IT services, such as Accenture, Cognizant, HPE, IBM Global Services, Infosys, Tata Consultancy Services, Tech Mahindra and Wipro. Network equipment providers such as Cisco, Ericsson, Huawei and Nokia Networks, among others, also pose significant threat.



Reasons To Buy:

- ▲ Amdocs is benefiting from well-timed acquisitions which complement its original business line. Most importantly, successful combination of its core billing and rating technology with Clarify's customer relationship management software helped it emerge as a leader in the market of business support systems. In the last reported quarter, the company revealed that its recent acquisition of Vubiquity has proven to be successful among media clients. It is also encouraging to see that communications giant Verizon has selected Vubiquity's services and technology to handle the processing and packaging of Verizon's vast video on-demand and pay-TV pay-per-view portfolio. These acquisitions are expected to aid Amdocs' long-term growth.
- ▲ Amdocs continues to expand its global client base by signing long-term contracts and collaborating with major telecom industry players worldwide. In fiscal 2019, Amdocs reported record high 12 months backlog of \$3.5 billion, which includes key transformations project with global service providers such as Comcast, T-Mobile, Altice and DISH in North America; Vodafone British Telecom, Orange in Europe; América Móvil, Airtel, Telefónica, Telstra, SingTel and Globe in the rest of the world. During third-quarter fiscal 2018, it rolled out automated operation capabilities for Vodafone India. The company also partnered with Telstra in Australia over next generation OSS platform for its B2B line of business. Such deals are expected to boost the company's top line.
- ▲ The company's Network Function Virtualization (NFV) area is also witnessing positive developments which will ultimately aid the company's growth. The company recently signed a deal with Comcast on the latter's SD-WAN offering, which will leverage Amdocs' leading energy portfolio, bringing orchestration, fulfilment and automation capabilities to service providers. This deal is expected lead to a delivery of significant value to our customers. The number of global service providers that are evaluating NFV are also on the rise. Amdocs' constant efforts to enhance its capabilities in this front is likely to help it cash in on this opportunity.
- ▲ Amdocs continues to win important deals. Growth areas within AT&T Mobile, such as Cricket prepaid in Mexico, saw significant value addition by Amdocs recently. Deal wins, including the one with Veon and a Tier 1 service provider in Spain, are driving revenue growth. Extension of managed services agreements with several customers, including Vodafone Hungary, and partnerships with Capita plc to provide digital business systems are tailwinds.
- ▲ Amdocs has a strong balance sheet with ample liquidity position. The company had cash and cash equivalents of \$1.19 billion as of Jun, 2020, up from \$763 million on Mar 31, 2020. Cash flow from operating activities was \$186.7 million, up from \$103 million recorded in the previous quarter and \$164.5 million in the year-ago quarter. Free cash flow was \$145.4 million compared with previous quarter's \$57 million and \$128.6 million reported in the year-ago quarter.
- ▲ Amdocs continues to boost shareholders' value by continuously repurchasing shares and paying regular dividends to its shareholders. During the last reported quarter, the company repurchased shares worth \$60 million..

Amdocs is collaborating with major telecom players across the globe to strengthen its position in the market, while improving its operating portfolio with innovative products.

Reasons To Sell:

- ▼ Amdocs is highly exposed to foreign currency exchange rate risk. Economic and political uncertainty is an overhang on the company's financials. For fiscal 2020, the company expects a 0.5% year-over-year negative impact of foreign exchange fluctuations on revenues on a constant currency basis.
- ▼ Amdocs is investing heavily in the emerging markets in order to boost sales, which may lead to a drop in margins. Even in the developed markets, management has decided to undertake a series of programs including training, knowledge transfer, and productivity enhancement to cope with recessionary situations. All these activities will result in bottom-line shrinkage.
- ▼ Continued drag in the directory systems market remains a headwind. This downtrend, which has been persistent for the past couple of years, is expected to continue.
- ▼ Amdocs is experiencing high customer concentration. AT&T, the company's largest client, accounts for a sizable chunk of revenues. However, revenues from AT&T dropped significantly in fiscal 2019. Approximately 65% of Amdocs' total revenues in fiscal 2019 came from the top 10 clients. Loss of any of these customers will result in significant erosion of the top line.
- ▼ Amdocs is a relatively minor supplier of billing systems for the cable industry. The company's entry into other business segments, such as financial services outsourcing and non-telecom customer relationship management software, may not be as successful as anticipated. Moreover, the consolidation trend in the U.S. telecom industry may significantly affect the company going forward.

High concentration risks, significant consolidation in the U.S. telecom industry, adverse currency exchange risks and heavy investments in emerging markets remain headwinds for Amdocs.

Last Earnings Report

Amdocs Tops Q3 Earnings & Revenue Estimates, Ups View

Amdocs reported third-quarter fiscal 2020 non-GAAP earnings of \$1.07 per share that beat the Zacks Consensus Estimate by 1.9%. However, the figure declined 10.1% year over year.

Revenues of \$1.03 billion also surpassed the consensus mark by 1.6% and were up 0.1% year over year. At constant currency (cc), revenues increased 1%.

Amdocs won a number of deals in the quarter under review including an agreement to support Bell Canada's cloud-native strategy, an enterprise digital-transformation project in the Philippines and a contract from Three UK.

Quarter Ending **06/2020**

| Report Date | Aug 05, 2020 |
|------------------|--------------|
| Sales Surprise | 1.56% |
| EPS Surprise | 1.90% |
| Quarterly EPS | 1.07 |
| Annual EPS (TTM) | 4.29 |

Quarterly Details

North America revenues (66.8% of total revenues) grew 6.5% year over year to \$685.9 million in the reported quarter.

However, Europe revenues (14.2% of total revenues) of \$145.4 million were unchanged at \$145.4 million. Rest of the World revenues (19% of total revenues) declined 17.2% year over year to \$194.9 million.

Managed services revenues (58.9% of total revenues) climbed 4.6% year over year to \$604.5 million.

The company ended the quarter with a 12-month backlog of \$3.48 billion, up 2.4% year over year.

Meanwhile, research & development expenses, as a percentage of revenues, increased 10 basis points (bps) on a year-over-year basis to 6.8%.

However, selling, general & administrative expenses, as a percentage of revenues, decreased 170 bps year over year to 10.2%.

Operating margin contracted 20 bps year over year to 17.1%.

Balance Sheet and Cash Flow

Amdocs had cash and cash equivalents of \$1.19 billion as of Jun, 2020, up from \$763 million on Mar 31, 2020.

Cash flow from operating activities was \$186.7 million, up from \$103 million recorded in the previous quarter and \$164.5 million in the year-ago quarter.

Free cash flow was \$145.4 million compared with previous quarter's \$57 million and \$128.6 million reported in the year-ago quarter.

During the fiscal third quarter, the company repurchased shares worth \$60 million. Amdocs' board of directors approved the payment of a quarterly dividend of \$0.3275 per share. The dividends will be paid out on Oct 23.

Post-Q3 Development

Amdocs announced the acquisition of Openet. The deal is valued at \$180 million and is expected to be closed by the end of fiscal 2020.

The acquisition is expected to be neutral to fiscal 2020 and 2021 earnings per share but accretive from fiscal 2022 onward.

Guidance

For the fourth quarter of fiscal 2020, revenues are expected between \$1.015 billion and \$1.055 billion.

Non-GAAP earnings are projected at \$1.16-\$1.22 per share.

Amdocs expects fiscal 2020 revenues to grow between 1.1% and 2.1% year over year, higher than previous guidance of down 0.5% to up 2.5%. At cc, revenues are expected to grow in the 1.6-2.6% range. TTS Wireless is expected to contribute a little more than 1%.

Adjusted earnings are estimated to grow between 1.6% and 3%, better than previous guidance of flat to up 4%.

The company expects free cash flow to be roughly \$420 million compared with the previous guidance of \$400 million.

Recent News

On Aug 11, Amdocs announced that it has completed the acquisition of Openet. Markedly, on Jul 23, the company had announced its plan to take over Openet. The integration of Openet would facilitate Amdocs' service provider clients to accelerate their technological transition in a 5G environment.

On Aug 5, Amdocs announced that Orange Liberia has partnered with it to upgrade latter's end-to-end digital enablement platform to reduce time-to-market and easily enable launching more innovative, personalized offers and bundles, including mobile, internet and Orange Money services to its customers.

Amdocs also announced an expanded agreement with SES to provide an end-to-end service orchestration solution based on the cloud-native Amdocs Service & Network Automation platform, which supports all aspects of service design, service inventory and orchestration across hybrid networks.

On Jul 27, Amdocs and Vodafone Idea Ltd. (VIL), a leading telecommunications services provider, announced the successful migration of Idea postpaid customers to the former's digital monetization system.

On Jul 7, Amdocs announced that announced it has expanded its agreement with Bell Canada to incorporate an extended set of Amdocs' real-time micro services which leverage the Amdocs Microservices360 framework.

On Jul 7, Amdocs announced that it has expanded its agreement with Philippines' Globe Telecom to include the deployment of a customer flow management system at retail stores, enabling safe and expedited customer interactions.

On Jun 30, Amdocs revealed signing a multi-year managed services deal with CK Hutchison Holdings to enable Three UK to enhance the experience for enterprise customers with new services that can be rolled out and scaled as needed, enabling faster time-to-market.

On Jun 17, Amdocs announced the pricing of senior notes offering worth \$650 million. The notes maturing in 2030 carries an interest rate of 2.538%, payable semi-annually on Jun 15 and Dec 15 of every year.

On May 8, Amdocs' media division, Vubiquity announced an expanded partnership with Partner TV.

Valuation

Amdocs shares are down 14.2% in the year-to-date (YTD) period and 3.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have gained 17.7% and 18%, respectively, YTD. Over the past year, the Zacks sub-industry and the sector have gained 21.1% and 31.8%, respectively.

The S&P 500 Index is up 3.3% YTD while has gained 14% in the past year.

The stock is currently trading at 13.13X forward 12-month earnings, which compares to 30.79X for the Zacks sub-industry, 26.17X for the Zacks sector and 22.8X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 18.44X and as low as 10.72X, with a 5-year median of 16.6X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$64 price target reflects 13.79X forward 12-month earnings.

The table below shows summary valuation data for DOX

| Valuation Multiples - DOX | | | | | |
|---------------------------|---------------|-------|--------------|--------|---------|
| | | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M | Current | 13.13 | 30.79 | 26.17 | 22.8 |
| | 5-Year High | 18.44 | 32.37 | 26.31 | 22.80 |
| | 5-Year Low | 10.72 | 15.46 | 16.72 | 15.25 |
| | 5-Year Median | 16.6 | 22.32 | 19.61 | 17.58 |
| P/S F12M | Current | 1.94 | 5.81 | 4.05 | 3.67 |
| | 5-Year High | 2.53 | 10.11 | 4.05 | 3.67 |
| | 5-Year Low | 1.45 | 3.91 | 2.32 | 2.53 |
| | 5-Year Median | 2.27 | 6.98 | 3.14 | 3.05 |
| EV/Sales TTM | Current | 1.86 | 5.94 | 4.66 | 3.26 |
| | 5-Year High | 2.40 | 8.02 | 4.66 | 3.46 |
| | 5-Year Low | 1.4 | 3.6 | 2.58 | 2.14 |
| | 5-Year Median | 2.08 | 5.74 | 3.65 | 2.86 |

As of 08/11/2020

Industry Analysis Zacks Industry Rank: Bottom 32% (171 out of 253)



Top Peers

| Company (Ticker) | Rec | Rank |
|---|---------|------|
| Amadeus IT Group SA (AMADY) | Neutral | 3 |
| ASGN Incorporated (ASGN) | Neutral | 3 |
| CDK Global, Inc. (CDK) | Neutral | 3 |
| CDW Corporation (CDW) | Neutral | 3 |
| EPAM Systems, Inc. (EPAM) | Neutral | 2 |
| ServiceNow, Inc. (NOW) | Neutral | 3 |
| PERSPECTA INC (PRSP) | Neutral | 3 |
| Science Applications International Corporation (SAIC) | Neutral | 3 |

| Industry Comparison Industry: Computers - It Services | | | | Industry Peers | | |
|---|---------|------------|-----------|----------------|---------|---------|
| | DOX | X Industry | S&P 500 | ASGN | PRSP | SAIC |
| Zacks Recommendation (Long Term) | Neutral | - | - | Neutral | Neutral | Neutral |
| Zacks Rank (Short Term) | 3 | - | - | 3 | 3 | 3 |
| VGM Score | A | - | - | A | B | A |
| Market Cap | 8.26 B | 2.70 B | 23.61 B | 3.82 B | 3.55 B | 4.96 B |
| # of Analysts | 5 | 5 | 14 | 5 | 4 | 7 |
| Dividend Yield | 2.14% | 0.00% | 1.69% | 0.00% | 1.27% | 1.73% |
| Value Score | A | - | - | B | B | A |
| Cash/Price | 0.14 | 0.06 | 0.07 | 0.06 | 0.03 | 0.06 |
| EV/EBITDA | 10.24 | 10.02 | 13.32 | 12.39 | -26.32 | 14.56 |
| PEG Ratio | 1.66 | 2.34 | 2.95 | 2.90 | NA | NA |
| Price/Book (P/B) | 2.26 | 5.73 | 3.22 | 2.62 | 2.63 | 3.52 |
| Price/Cash Flow (P/CF) | 10.76 | 12.81 | 12.79 | 11.39 | 5.04 | 10.43 |
| P/E (F1) | 14.07 | 29.52 | 22.02 | 16.74 | 11.14 | 14.13 |
| Price/Sales (P/S) | 1.99 | 2.60 | 2.57 | 0.97 | 0.79 | 0.76 |
| Earnings Yield | 7.18% | 2.38% | 4.29% | 5.97% | 8.97% | 7.08% |
| Debt/Equity | 0.24 | 0.24 | 0.77 | 0.76 | 1.73 | 1.99 |
| Cash Flow (\$/share) | 5.70 | 1.07 | 6.94 | 6.39 | 4.38 | 8.18 |
| Growth Score | B | - | - | A | A | A |
| Hist. EPS Growth (3-5 yrs) | 6.42% | 17.84% | 10.41% | 22.17% | NA | 17.71% |
| Proj. EPS Growth (F1/F0) | 2.04% | -3.34% | -6.51% | -5.60% | -8.22% | 6.69% |
| Curr. Cash Flow Growth | 2.45% | 15.98% | 5.22% | 3.13% | 8.73% | 74.09% |
| Hist. Cash Flow Growth (3-5 yrs) | 3.85% | 15.72% | 8.55% | 16.83% | NA | 23.85% |
| Current Ratio | 1.84 | 1.47 | 1.34 | 2.39 | 0.78 | 1.05 |
| Debt/Capital | 19.39% | 32.71% | 44.59% | 43.07% | 63.41% | 66.55% |
| Net Margin | 11.71% | 3.26% | 10.13% | 4.79% | -15.76% | 3.17% |
| Return on Equity | 15.30% | 9.12% | 14.59% | 18.50% | 18.09% | 25.32% |
| Sales/Assets | 0.73 | 0.76 | 0.51 | 1.33 | 0.78 | 1.30 |
| Proj. Sales Growth (F1/F0) | 1.56% | 0.68% | -1.45% | -2.86% | -2.65% | 13.40% |
| Momentum Score | C | - | - | D | F | D |
| Daily Price Chg | -1.86% | -0.47% | -0.17% | 0.48% | 0.14% | 1.68% |
| 1 Week Price Chg | -0.34% | 2.73% | 2.30% | 4.10% | 2.10% | 4.10% |
| 4 Week Price Chg | 4.15% | 9.01% | 6.41% | 8.80% | 2.60% | 20.56% |
| 12 Week Price Chg | -0.63% | 20.04% | 15.42% | 26.68% | -3.66% | 3.19% |
| 52 Week Price Chg | -4.29% | 14.22% | 2.88% | 17.96% | 0.36% | 1.48% |
| 20 Day Average Volume | 663,187 | 492,531 | 2,007,486 | 259,985 | 895,042 | 486,488 |
| (F1) EPS Est 1 week change | 1.31% | 0.00% | 0.00% | 0.00% | -0.35% | 0.00% |
| (F1) EPS Est 4 week change | 1.31% | 0.00% | 1.84% | 12.75% | -0.35% | 0.00% |
| (F1) EPS Est 12 week change | 1.31% | 1.99% | 2.40% | 12.75% | -6.83% | -0.96% |
| (Q1) EPS Est Mthly Chg | 3.70% | 0.00% | 0.72% | 28.78% | -4.95% | 0.00% |

Zacks Stock Rating System

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

Zacks Recommendation

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

Zacks Rank

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

Zacks Style Scores

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

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

| | |
|----------------|----------|
| Value Score | A |
| Growth Score | B |
| Momentum Score | C |
| 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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