

Goldman Sachs (GS)

\$216.90 (As of 07/15/20)

Price Target (6-12 Months): **\$228.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/18/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: F

Growth: F

Momentum: A

Summary

Shares of Goldman have outperformed the industry in the past three months. Also, the company has a decent earnings surprise history, outpacing the Zacks Consensus Estimate in two of the trailing four quarters. The company's second-quarter 2020 results reflected higher revenues, solid capital position, along with elevated expenses and provisions. Goldman's solid position in worldwide announced and completed M&As will keep strengthening the business. Also, business diversification and cost management are tailwinds. Moreover, with strong liquidity, the company carries a low credit risk. Further, following the 2020 stress test results, the company will maintain the dividend level. Yet, legal issues remain a headwind. In addition, high dependence on overseas revenues and volatile client-activity might impede Goldman's top-line growth.

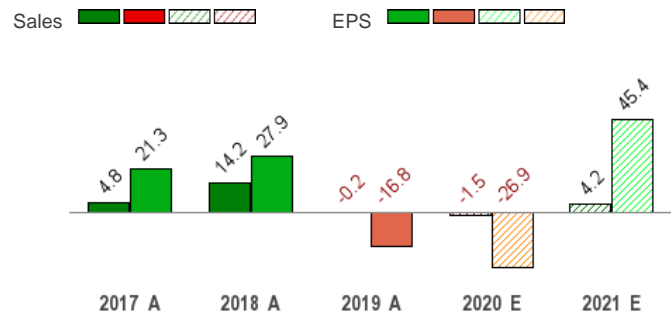
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$250.46 - \$130.85
20 Day Average Volume (sh)	3,906,715
Market Cap	\$74.6 B
YTD Price Change	-5.7%
Beta	1.46
Dividend / Div Yld	\$5.00 / 2.3%
Industry	Financial - Investment Bank
Zacks Industry Rank	Top 30% (75 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	57.7%
Last Sales Surprise	32.0%
EPS F1 Est- 4 week change	11.3%
Expected Report Date	10/20/2020
Earnings ESP	0.6%
P/E TTM	11.5
P/E F1	14.1
PEG F1	0.8
P/S TTM	1.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	9,709 E	9,463 E	9,227 E	9,515 E	37,525 E
2020	8,743 A	13,295 A	8,562 E	8,844 E	36,010 E
2019	8,807 A	9,461 A	8,323 A	9,955 A	36,546 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$5.58 E	\$5.12 E	\$5.56 E	\$6.36 E	\$22.35 E
2020	\$3.11 A	\$6.26 A	\$4.19 E	\$4.64 E	\$15.37 E
2019	\$5.71 A	\$5.81 A	\$4.79 A	\$4.69 A	\$21.03 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 07/15/2020. The reports text is as of 07/16/2020.

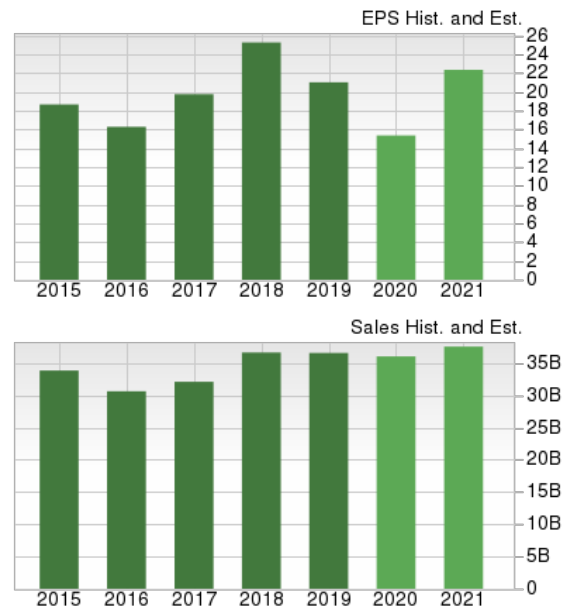
Overview

Founded in 1869, The Goldman Sachs Group, Inc. is a leading global financial holding company providing investment banking, securities and investment management services to a diversified client base. The company is headquartered in New York, with offices in London, Frankfurt, Tokyo, Hong Kong and other major financial centers globally. As of Jun 30, 2020, the company had a total of 39,100 employees.

Beginning with 2019 fourth quarter results, Goldman announced new business segments. The company's new 4 reporting segments are as follows:

- The Investment Banking segment (contributed 21% of the 2019 revenues) comprises the Financial Advisory and Underwriting. Further, results from lending to corporate clients are included.
- The Global Markets segment (40%) consists of Fixed Income, Currency and Commodities, which include client-execution activities related to making markets in credit products, interest rate products, mortgages, currencies and commodities. Equities include client execution activities related to making markets in equities, commissions and fees, and the company's securities services business. Also, it includes results from providing warehouse lending and structured financing to institutional clients and results from transactions in derivatives associated with client advisory and underwriting assignments.
- The Consumer & Wealth Management segment (14%) includes management and other fees, incentive fees and results from deposit-taking activities related to wealth management business. Further, results from providing loans through the company's private bank, providing unsecured loans and accepting deposits through the bank's digital platform, Marcus by Goldman Sachs, and serving credit cards are included.
- The Asset Management division (25%) comprises management and other fees. Further, this division includes incentive fees related to asset management and merchant banking funds, as well as transaction revenues. Further, results from investments in equity securities and lending activities, including investments in debt securities and loans backed by real estate are included.

In 2019, Goldman completed the acquisition of United Capital Financial Partners.



Reasons To Buy:

- ▲ The key source of Goldman's earnings stability is its business diversification. Within traditional banking, a diversified product portfolio has better chances of sustaining growth than many other banks, which have exited some of these areas. Notably, Goldman has been undertaking initiatives to boost the GS Bank's business with its acquisition of the online deposit platform of GE Capital Bank in April 2016. It also launched a digital consumer lending platform — *Marcus by Goldman Sachs*. Additionally, the company is likely to benefit from its exposure to the fast growing exchange-traded funds (ETF) market.
- ▲ Investment banking revenues witnessed a three-year (2017-2019) CAGR of 1%, with some annual volatility providing decent support to Goldman's top-line growth. The uptrend continued in the first six months of 2020 as well on strong underwriting business. Though industry-wide completed mergers and acquisitions transactions decreased in 2020 till date due to the pandemic, M&A activities were strong in 2018 and 2019, with the execution of many large transactions. Therefore, Goldman's solid position in worldwide announced and completed M&As will likely give it further edge over its peers.
- ▲ Goldman has benefited over the past few years from its successful expense-reduction initiatives. Though expenses have been volatile for the past few years, the figure declined significantly in 2016, but recorded three-year CAGR of 9% in 2019, due to higher compensation and litigation expenses. The uptrend continued in the first six months of 2020 as well. Nevertheless, the company completed an expense initiative and generated nearly \$900 million of run-rate savings. The company is focused on improving efficiency, while maintaining strong franchise and investing in new opportunities. Therefore, continuation of expense management will aid bottom-line expansion in the coming years.
- ▲ Amid the coronavirus crisis and its continued impact on economy, the company holds a total debt level of \$398 billion as of Jun 30, 2020, which has decreased from the level of past few quarters. Therefore, the company's earnings stability and strong cash position of \$406 billion as of Jun 30, 2020, indicate lower credit risk, and a lesser likelihood of default of interest and debt repayments if the economic situation worsens.
- ▲ Backed by a solid capital position, Goldman has consistently enhanced shareholders' value with steady capital-deployment activities. The company increased its quarterly dividend to \$1.25 in July 2019. Also, it had a share repurchase program in place, that was suspended mid-March following the coronavirus crisis. Notably, following the announcement of 2020 stress test results, the company will be maintaining the dividend level as before and keep share repurchases suspended in the third quarter of 2020 as well. This not only reflects the company's commitment to return value to the shareholders but also its strong position to endure severe economic downturns. Also, the company's payout ratio compares favorably with the broader industry reflecting such dividend hikes sustainable in the future.
- ▲ Shares of Goldman have outperformed the industry in the past three months. With this favorable trend, the company's current-year earnings estimate has been revised 4.8% upward over the last 30 days. Therefore, given the robust fundamentals and positive estimate revisions, the stock has upside potential.

Organic growth, cost management, solid capital position and steady capital deployment activities continue to aid Goldman's growth prospects. Also, business diversification remains a key strength.

Reasons To Sell:

- ▼ Global Markets division of Goldman mainly constitutes of Fixed Income, Currency and Commodities Client Execution (FICC) and Equities revenues and recorded a three-year CAGR of 9.6% in 2019, with the trend continuing in the first six months of 2020. Though the division recorded growth, a challenging environment depicting volatile client-activity levels, along with coronavirus concerns affected the performance of this division to some extent. Therefore, the future performance of this volatility-driven division depends on market developments and client volumes.
- ▼ Goldman is a geographically diversified company with presence in almost all the major markets in the world. The company has high dependence on overseas revenues as reflected in the last few years. A number of risks stemming from the regulatory and political environment, foreign exchange fluctuations and performance of regional economy may hurt its top line.
- ▼ Goldman continues to face many investigations and lawsuits from investors and regulators. Though the company resolved certain litigations related to the sale of risky mortgage-backed securities, many of the cases are yet to be resolved. All these are expected to lead to increased expenses and litigation provisions in the near term. Goldman has been entangled in the heightened scandal related to the multibillion-dollar 1Malaysia Development Bhd (1MDB), which is a major concern.
- ▼ The stock seems overvalued when compared with the broader industry. Its price-earnings (P/E) (F1) and price-to-sales (P/S) ratios are above the respective industry averages.

Geopolitical concerns and volatile client-activity levels may hinder top-line growth of Goldman. Further, legal hassles and higher dependence on overseas revenues remain other headwinds.

Last Earnings Report

Goldman Q2 Earnings Beat, Provisions Up on Coronavirus Scare

Goldman reported second-quarter 2020 earnings per share of \$6.26, significantly surpassing the Zacks Consensus Estimate of \$3.97. Also, the bottom-line figure compares favorably with the earnings of \$5.81 per share recorded in the year-earlier quarter.

With the market volatility flaring up on the rising coronavirus concerns, the bank's results were aided by higher Fixed Income, Currency and Commodities Client Execution (FICC) revenues during the reported quarter. Also, underwriting business displayed strength. In addition, wealth management and consumer banking business reported an upswing, reflecting rise in deposit balances and credit card loans.

The investment bank, nevertheless, disappointed with the rise in operating expenses and provisions. Additionally, lower financial advisory revenues, due to the decline in industry-wide completed mergers and acquisitions transactions, played spoilsport. Moreover, corporate lending revenues disappointed.

Revenues Climb, Expenses Up

Goldman's net revenues were up 41% year over year to \$13.3 billion in the reported quarter. The revenue figure also beat the Zacks Consensus Estimate of \$10.1 billion.

Quarterly revenues, as per business segments, are as follows:

The **Investment Banking** division generated revenues of \$2.7 billion, up 36% year over year. Results suggest higher underwriting revenues (more than doubled year over year), supported by elevated equity and debt underwriting revenues on elevated volumes. Yet, corporate lending reported negative revenues. Further, decreased financial advisory revenues (down 11%) were on the downside due to fall in industry-wide completed mergers and acquisitions transactions.

The **Global Markets** division recorded revenues of \$7.2 billion, up 93% year over year. This upside indicates record net revenues in Fixed Income, Currency and Commodities Client Execution (more than doubled year over year), driven by solid revenues from currencies, credit products, interest rate products and commodities. Also, FICC financing was on the upside.

Furthermore, higher equities revenues (up 46%) were recorded, aided by elevated equities intermediation.

The **Consumer and Wealth Management** division's revenues of \$1.4 billion came in 9% higher year over year during the June-end quarter. Increased revenues from wealth management (up 7%) and consumer banking (up 19%) resulted in this upsurge.

The **Asset Management** division recorded revenues of \$2.1 billion, down 18% year over year. This decline mainly resulted from lower net revenues in equity investments, partly negated by elevated revenues in lending and debt investments, along with higher incentive and management and other fees.

Asset under supervision were \$2.1 billion, up 23.5% year over year.

Total operating expenses flared up 37% year over year to \$8.4 billion. Rise in almost all components of expenses resulted in this upside.

Notably, net provisions for litigation and regulatory proceedings of \$945 million were recorded as compared with the prior-year quarter's \$66 million.

Provision for credit losses was \$1.59 billion in the second quarter, significantly up from the prior-year quarter figure of \$214 million due to elevated provisions in wholesale loans as well as consumer loans on more-than-expected deterioration in the economic environment.

Strong Capital Position

Goldman displayed a robust capital position in the reported quarter. As of Jun 30, 2020, the company's Common Equity Tier 1 ratio was 12.4% under the Basel III Advanced Approach, highlighting valid transitional provisions. The figure was up from the prior quarter's 12.3%.

The company's supplementary leverage ratio, on a fully phased-in basis, was 6.7% at the end of the April-June quarter, up from the prior-quarter figure of 5.9%.

Return on average common shareholders' equity, on an annualized basis, was 11.1% in the quarter.

Goldman continued to optimize the digital consumer deposit platforms. Notably, consumer deposits escalated a record \$20 billion in the reported quarter to \$92 billion.

Goldman initiated its transaction banking business in the U.S. providing deposit-taking, payments, liquidity management, and escrow services. During the quarter, deposits on the platform surged \$16 billion to \$25 billion.

Outlook

In the second half of 2020, Goldman expects a potential pickup in M&A activity, both from companies coming from a position of strength, as well as those challenged by the environment. Dislocated asset prices are likely to drive those opportunities, as significant amount of private capital will be available for deployment amid macro and political uncertainties.

Quarter Ending 06/2020

Report Date	Jul 15, 2020
Sales Surprise	31.97%
EPS Surprise	57.68%
Quarterly EPS	6.26
Annual EPS (TTM)	18.85

While the company's balance sheet is modestly asset sensitive, given the mix of high turnover or floating rate assets, and hedge floating rate liabilities, if interest rates remain stable, management expects NII to gradually expand over time on consumer deposits repricing.

Given the challenging operating environment, management is re-examining all its forward spending and investment plans to ensure the best use of resources. Consistent with the historical focus on expense discipline and the emphasis on cost control at Investor Day, management will assess the timing, magnitude and pace of certain expenses and investments. Importantly, it continues to pursue medium-term efficiency target. To that end, management expects to realize the effect of planned reductions in non-compensation expenses more significantly through the second half of this year.

For the next few years, Goldman expects tax rate to be 21%.

Medium-Term Financial Targets

Return on Equity is expected to be greater than 13%, while return on tangible equity to be more than 14%. Efficiency ratio is expected to be around 60%. CET1 ratio is expected in the range of 13-13.5%.

Growing and spending business growth worth \$2-\$3 billion. New initiatives spend worth \$1-2 billion. Funding optimization is expected to be \$1 billion. Expense efficiency savings expected to be \$1.3 billion.

Management expects transaction banking revenues worth \$1 billion and deposits worth \$50 billion in more than five years horizon.

Recent News

Goldman Analyze Global Economic Situation Ahead - May 27, 2020

Top executive from Goldman presented the views on economic recovery and its impact on the business, at the 2020 virtual conference hosted by AllianceBernstein Holding LP .

Per Goldman president, John Waldron, on easing of lockdowns related to the coronavirus pandemic and above that the pulling back of stimulus programs by the Government, the global economy could turn out to be in a rough phase.

"The biggest risk we all face is the economic trajectory," Waldron said. "The risks ahead are that it doesn't go quite that smoothly, and you have re-emergence of the virus maybe in pockets, you have uneven start-and-stop kind of feeling around the world", he added.

Notably, Waldron is concerned about the credit risk for corporations and consumers. Also, middle-market lending, which has expanded majorly in recent years through both banks and non-bank lenders are at risk of getting advantage from capital markets or government support. "We are playing close attention to that," he said.

Per Waldron, consumers would be facing challenges on the W-shaped recovery, particularly on the waning government support, leading to "a lot more destruction" in consumer credit. Remarkably, Goldman holds a small share in lending credit to individuals, with outstanding loan balances of around \$7 billion.

Among other measures, Goldman will be operating from offices in the United States and London over the next several weeks. Also, the bank is exploring acquisition opportunities though avoiding large-scale mergers, according to Waldron. Further, Waldron confirmed that the bank would pay 10-35 basis points for physical deposits for its transaction-banking product, citing gains from its new cash-management platform. Last but not the least, Goldman reiterates the medium- and long-term financial targets announced at investor day in January, despite the economic slowdown on the coronavirus-related mayhem.

Dividend Update

On Jul 14, Goldman's board of directors announced a quarterly dividend of \$1.25 per share. The dividend will be paid on Sep 29, to shareholders of record as of Sep 1, 2020.

Valuation

Goldman's shares are down 5.7% in the year-to-date period and 1.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 8.7% and 19.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 1.5% and 15.1%, respectively.

The S&P 500 Index is down 0.5% in the year-to-date period but up 7.1% in the past year.

The stock is currently trading at 11.21X forward 12 months earnings, which compares to 13.04X for the Zacks sub-industry, 16.21X for the Zacks sector and 22.72X for the S&P 500 index.

Over the past five years, the stock has traded as high as 15.48X and as low as 5.49X, with a 5-year median of 9.78X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$228 price target reflects 11.78X forward earnings.

The table below shows summary valuation data for GS

Valuation Multiples - GS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.21	13.04	16.21	22.72
	5-Year High	15.48	15.31	16.21	22.72
	5-Year Low	5.49	6.04	11.59	15.25
	5-Year Median	9.78	11.67	14.16	17.52
P/TB TTM	Current	0.96	2.23	3.28	12.63
	5-Year High	1.51	3.33	4	12.78
	5-Year Low	0.63	1.4	2	5.96
	5-Year Median	1.09	2.37	3.48	9.5
P/S F12M	Current	2.03	3.64	6.04	3.55
	5-Year High	3.24	4.53	6.66	3.55
	5-Year Low	1.24	2.74	4.96	2.53
	5-Year Median	2.26	3.55	6.06	3.02

As of 07/15/2020

Industry Analysis Zacks Industry Rank: Top 30% (75 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
Jefferies Financial Group Inc. (JEF)	Outperform	1
Bank of America Corporation (BAC)	Neutral	3
Citigroup Inc. (C)	Neutral	3
Evercore Inc (EVR)	Neutral	3
JPMorgan ChaseCo. (JPM)	Neutral	3
KeyCorp (KEY)	Neutral	3
MoelisCompany (MC)	Neutral	4
Morgan Stanley (MS)	Neutral	3

Industry Comparison Industry: Financial - Investment Bank				Industry Peers		
	GS	X Industry	S&P 500	EVR	JPM	MS
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	F	-	-	F	F	A
Market Cap	74.59 B	767.51 M	22.66 B	2.37 B	303.88 B	80.91 B
# of Analysts	7	2	14	2	10	7
Dividend Yield	2.31%	0.00%	1.83%	3.96%	3.61%	2.73%
Value Score	F	-	-	D	F	B
Cash/Price	5.09	0.74	0.07	0.27	3.97	3.93
EV/EBITDA	-3.92	2.12	12.99	4.74	-7.51	-1.74
PEG Ratio	0.77	1.63	2.97	NA	3.47	1.30
Price/Book (P/B)	0.92	1.78	3.12	2.29	1.31	1.03
Price/Cash Flow (P/CF)	7.55	8.56	12.14	5.61	7.10	7.33
P/E (F1)	14.26	14.12	22.04	22.06	17.35	12.45
Price/Sales (P/S)	1.38	1.32	2.38	1.18	2.19	1.56
Earnings Yield	7.09%	7.08%	4.32%	4.52%	5.77%	8.02%
Debt/Equity	2.78	0.36	0.76	0.60	1.29	2.48
Cash Flow (\$/share)	28.72	2.30	6.94	10.44	14.04	7.01
Growth Score	F	-	-	F	F	C
Hist. EPS Growth (3-5 yrs)	7.81%	15.61%	10.85%	28.77%	15.63%	20.05%
Proj. EPS Growth (F1/F0)	-26.93%	-14.15%	-9.64%	-65.52%	-46.39%	-17.18%
Curr. Cash Flow Growth	-13.72%	2.06%	5.51%	-15.37%	9.35%	9.18%
Hist. Cash Flow Growth (3-5 yrs)	0.72%	13.28%	8.55%	23.38%	10.67%	13.46%
Current Ratio	0.79	1.31	1.30	3.14	0.89	0.80
Debt/Capital	70.94%	28.51%	44.46%	37.58%	54.97%	69.08%
Net Margin	13.40%	9.77%	10.59%	12.96%	18.16%	16.01%
Return on Equity	9.03%	14.28%	15.75%	33.05%	10.76%	10.62%
Sales/Assets	0.05	0.29	0.54	0.90	0.05	0.06
Proj. Sales Growth (F1/F0)	-1.47%	0.00%	-2.52%	-27.41%	-2.90%	-4.44%
Momentum Score	A	-	-	D	A	A
Daily Price Chg	1.35%	1.49%	1.91%	5.57%	1.55%	1.68%
1 Week Price Chg	4.13%	0.62%	-0.41%	-3.40%	3.90%	4.21%
4 Week Price Chg	5.19%	0.00%	1.88%	-2.07%	0.25%	7.52%
12 Week Price Chg	23.25%	17.90%	16.37%	21.39%	11.63%	35.81%
52 Week Price Chg	1.69%	-9.55%	-4.22%	-33.35%	-12.51%	17.32%
20 Day Average Volume	3,906,715	108,256	2,266,132	509,043	23,916,054	12,138,591
(F1) EPS Est 1 week change	0.96%	0.00%	0.00%	10.86%	10.88%	0.56%
(F1) EPS Est 4 week change	11.30%	1.13%	0.00%	10.86%	12.03%	9.88%
(F1) EPS Est 12 week change	16.51%	10.33%	-5.76%	-11.79%	12.25%	10.33%
(Q1) EPS Est Mthly Chg	23.08%	1.26%	0.00%	-42.00%	43.02%	9.76%

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	F
Growth Score	F
Momentum Score	A
VGM Score	F

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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