

The Home Depot Inc. (HD)

\$234.43 (As of 05/08/20)

Price Target (6-12 Months): **\$246.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/13/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: D

Summary

Home Depot has outpaced the industry in the past year courtesy of its solid earnings trend. The company continued with its earnings beat trend in fourth-quarter fiscal 2019 benefiting from lower operating expenses and improved operating margin. Further, the company's One Home Depot strategy has been aiding results. Through the two years of the plan, the company increased sales by more than \$9 million. Backed by the progress on the One Home Depot investments, it provided a strong view for fiscal 2020. Moreover, the company's Pro segment continued to perform well, driven by strength in categories like pneumatics, concrete and hand tools. However, sales declined year over year due to an additional week in fiscal 2018. Also, changes in mix of products sold and higher shrink continued to hurt gross margin.

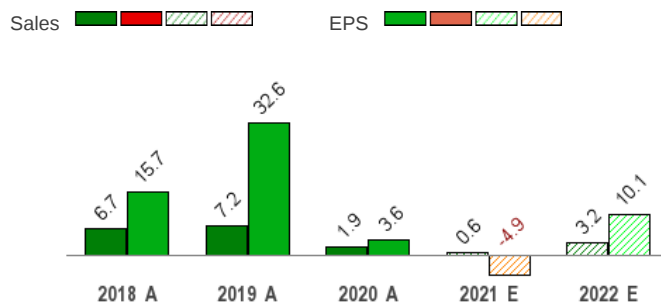
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$247.36 - \$140.63
20 Day Average Volume (sh)	4,624,163
Market Cap	\$251.8 B
YTD Price Change	7.4%
Beta	1.03
Dividend / Div Yld	\$6.00 / 2.6%
Industry	Building Products - Retail
Zacks Industry Rank	Bottom 11% (224 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.1%
Last Sales Surprise	0.1%
EPS F1 Est- 4 week change	-1.3%
Expected Report Date	05/19/2020
Earnings ESP	-2.5%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	27,178 E	31,703 E	28,422 E	26,984 E	114,473 E
2021	27,235 E	30,931 E	27,362 E	25,975 E	110,877 E
2020	26,381 A	30,839 A	27,223 A	25,782 A	110,225 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$2.34 E	\$3.31 E	\$2.71 E	\$2.34 E	\$10.73 E
2021	\$2.24 E	\$2.96 E	\$2.46 E	\$2.13 E	\$9.75 E
2020	\$2.27 A	\$3.17 A	\$2.53 A	\$2.28 A	\$10.25 A

*Quarterly figures may not add up to annual.

P/E TTM	22.9
P/E F1	24.0
PEG F1	2.2
P/S TTM	2.3

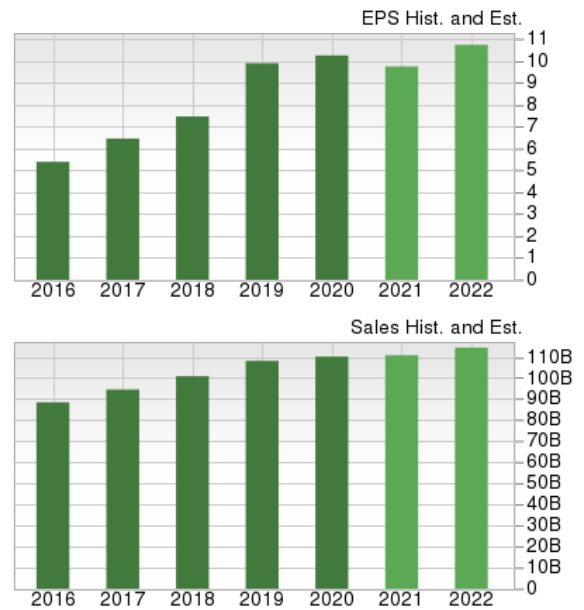
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/08/2020. The reports text is as of 05/11/2020.

Overview

Based on net sales, The Home Depot Inc. is the world's largest home improvement specialty retailer with over 2,200 retail stores across the globe, offering a diverse range of branded and proprietary home improvement items, building materials, lawn and garden products, and related services.

With the help of its stores, the company operates throughout the United States (including the territories of Puerto Rico and the Virgin Islands), Canada and Mexico and employs more than 300,000 associates. The company's average store area is almost 105,000 square feet with approximately 23,000 square feet of additional outside garden area. The company typically serves three primary customer groups: Do-It-Yourself (D-I-Y), Do-It-For-Me (D-I-F-M), and Professional Customers.

- **D-I-Y Customers:** These customers are usually home owners, who prefer purchasing products and completing installations on their own.
- **D-I-F-M Customers:** These customers are usually home owners, who purchase products on their own and employ third-parties to complete the projects and installations.
- **Professional Customers:** This customer segment mostly comprises professional remodelers, general contractors, repairmen, small business owners, and tradesmen.



Reasons To Buy:

▲ **Robust Q4 Results, Strong Earnings Trend:** Home Depot continued with its positive earnings streak in fourth-quarter fiscal 2019. Earnings and sales surpassed the Zacks Consensus Estimate. Moreover, earnings improved on a year over year basis on robust comparable sales (comps) lower SG&A expenses and higher operating income. Results were partly offset by an extra week of operation in the fourth quarter of fiscal 2018 compared with the reported quarter. The company's overall comps grew 5.2%, with a 5.3% improvement in the United States. Comps were aided by 4.1% rise in average ticket, offset by a 6.4% decline in customer transactions. For fiscal 2020, the company projects earnings per share of \$10.45, suggesting 2% growth from the reported in fiscal 2019. It expects sales growth of 3.5-4% for fiscal 2020, with comps growth of 14%. In the past year, shares of Home Depot gained 23.1%, compared with the industry's growth of 17.6%.

The Pro segment is gaining from Home Depot's efforts to simplify the Pro shopping experience and expand engagement through services like tool rental, delivery and the new B2B online experience.

▲ **Integrated Retail Strategy:** Home Depot is witnessing significant benefits from the execution of its "One Home Depot" investment plan, focused on delivering an interconnected shopping experience for customers. The company notes that fiscal 2019 was a year of significant progress on its One Home Depot investment plan. Home Depot is in the second year of the aforementioned plan. Through the two years, the company increased sales by more than \$9 million. Backed by the progress on the One Home Depot investments, it provided a strong view for fiscal 2020. For a better store experience, the company has revamped majority of the U.S. stores with a new look and feel, addressing customer feedbacks relating to navigation and checkouts. The company has enhanced navigation through the introduction of way-finding sign and store refresh package. These along with front-end store investments to optimize labor and merchandise space productivity led to improved customer satisfaction scores and improved conversion rates in stores. Additionally, the company is investing to strengthen the competitive advantage by blending its physical and digital platforms for a more seamless interconnected experience. This is demonstrated by the chain-wide roll out of digital appliance labels, which connects ratings and reviews of the digital world with its stores, thus, enhancing in-store shopping experience.

Furthermore, the company's digital site remains a key growth driver for the overall business, with improved online traffic as well as driving additional footsteps to stores. Consequently, the company is investing in its website and other applications through investments in search functionality, category presentations, product content and enhanced fulfillment options.

▲ **Enhanced Fulfillment Options:** Another key component of delivering an interconnected experience is enhanced delivery and fulfillment options. Over the years, the company has created the fastest, most efficient delivery network in home improvement. For instance, of the many efforts on track, the company has opened a dozen Market Delivery Operations (MDOs) that has resulted in transition of 20% of clients' deliveries from an outsourced model to one, where it has better control of the customer experience. This has resulted in improved customer satisfaction scores for appliance deliveries. The company expects the supply chain build-out to ramp from here with the largest number of new facilities coming online in 2021 and 2022.

▲ **Focus on Pro Customers:** Home Depot's Pro segment is a key growth driver, with Pro sales outpacing DIY (do-it-yourself) sales for the past several quarters. Strong growth in Pro-heavy categories like pneumatics, concrete and hand tools mainly aided Pro customer sales in the fiscal fourth quarter. The Pro segment is benefiting from the company's efforts to enhance service capabilities for the Pros. The company is focused on building an ecosystem for the Pro customers that will include product and brands, delivery and credit services, digital capabilities like the B2B tool rental and a lot more. It is simplifying the Pro shopping experience and expanding engagement through services like tool rental, delivery and the new B2B website, which brings a more personalized experience. In fiscal 2019, the company rolled out the new Pro online experience to more than 1 million Pros. Additionally, the company completed the integration of third party best-in-class CRM system for all of its Pro sales and services teams in the fiscal fourth quarter. This will enhance visibility and help better serve Pro customers.

▲ **Capital Strategy:** Home Depot has a disciplined capital allocation strategy, supported by solid free cash flow generation capability. This allows management to undertake shareholder-friendly moves. Clearly, the long-term targets of dividend payout ratio of about 55% of earnings and return on invested capital (ROIC) of more than 40% highlight its focus on this strategy. Based on the average of beginning and ending long-term debt and equity for the trailing 12 months, ROIC at the end of fiscal 2019 improved 60 bps year over year to 45.4%. In fiscal 2019, the company reinvested about \$2.7 billion in its business through capital expenditure. During the fiscal, it bought back 32.8 million shares for \$7 billion, including 14.5 million shares repurchased for \$3.25 billion in the fiscal fourth quarter. In fiscal 2019, it paid \$6 billion in dividends to shareholders. Further, the company raised its quarterly dividend by 10% to \$1.50 per share, reflecting an annualized dividend of \$6 per share.

For fiscal 2020, the company expects generating \$13.5 billion of operating cash flow. It expects capital expenditure of \$2.8 billion. Moreover, it plans to use the cash to pay dividends of \$6.4 billion and repurchase at least \$5 billion worth of shares.

Reasons To Sell:

▼ **Stock Valuation:** Considering Price-to-Earnings (P/E) ratio, Home Depot looks overvalued when compared with broader industry and the S&P 500. The stock has a trailing 12-month P/E of 22.87x compared with 21.71x for the industry and 18.76x for S&P 500. The company's trailing 12-month P/E ratio is above the median level of 21.47x and below the high level of 24.1x scaled in the past year. These factors profess that the stock's valuation is quite stretched.

Home Depot's gross profit margin contracted 20 bps to 33.9% primarily driven by higher shrink and unfavorable mix of products sold.

▼ **Soft Gross Margin:** While Home Depot has been posting splendid results, its gross margin looks troubled. In dollar terms, gross profit declined 3.2% to \$8,736 million in fourth-quarter fiscal 2019, primarily driven by soft sales. Further, gross profit margin contracted 20 basis points (bps) to 33.9% primarily driven by higher shrink and unfavorable mix of products sold. Prior to this, the company's gross margin contracted 31 bps in the third quarter, 20 bps in the second quarter, and 30 bps in first-quarter fiscal 2019. Notably, operating expenses leveraged in the fourth quarter and for fiscal 2019, resulting in operating margin growth. However, the company expects fiscal 2020 to be a year of peak investments. Consequently, operating expense is expected to increase 1.2 times the rate of its anticipated sales growth.

▼ **Stiff Competition:** In the home improvement retailing business, Home Depot faces stiff competition from Lowe's, Sherwin-Williams Company and other home supply retailers on aspects such as location, price and quality of merchandise, in-stock consistency, merchandise assortments and customer service. Additionally, the company faces intense competition from online retailers. This may weigh upon the company's results.

▼ **Macroeconomic Headwinds:** Home Depot's customers remain sensitive to macroeconomic factors including interest rate hikes, increase in fuel and energy costs, credit availability, unemployment levels, and high household debt levels, which may negatively impact their discretionary spending, and in turn the company's growth and profitability. An unfavorable economy might delay home improvement projects, which in turn could hamper sales of product categories and services provided by the company.

Last Earnings Report

Home Depot Surpasses Q4 Earnings and Sales Estimates

Home Depot has posted fourth-quarter fiscal 2019, wherein earnings and sales beat the Zacks Consensus Estimate. However, the company's top line declined on a year-over-year basis, while earnings improved. It also provided a solid view for fiscal 2020.

Q4 Highlights

Earnings of \$2.28 per share grew 9.1% from \$2.09 registered in the year-ago quarter. The bottom line also surpassed the Zacks Consensus Estimate of \$2.10. Results were partly offset by an extra week of operation in the fourth quarter of fiscal 2018 compared with the reported quarter, which added 21 cents to earnings per share in the fourth quarter of fiscal 2018.

Net sales declined 2.7% to \$25,782 million from \$26,491 million in the year-ago quarter but beat the Zacks Consensus Estimate of \$25,747 million. The sales decline is attributed to one extra week in the fourth quarter of fiscal 2018, which contributed incremental sales of \$1.7 billion. The company's overall comps grew 5.2%, with a 5.3% improvement in the United States.

In the reported quarter, comps were aided by 4.1% rise in average ticket, offset by a 6.4% decline in customer transactions. Moreover, sales per square foot rose 2.8%.

In dollar terms, gross profit declined 3.2% to \$8,736 million from \$9,027 million in the year-ago quarter, primarily driven by soft sales. Further, gross profit margin contracted 20 basis points (bps) to 33.9%.

Operating income rose 0.7% to \$3,403 million, while operating margin expanded 40 bps to 13.2%. Despite a decline in gross margin, operating margin benefited from a decrease in SG&A expenses.

Balance Sheet and Cash Flow

Home Depot ended fiscal 2019 with cash and cash equivalents of \$2,133 million, long-term debt (excluding current maturities) of \$28,670 million, and shareholders' deficit of \$3,116 million. In fiscal 2019, it generated \$13,723 million of net cash from operations.

In fiscal 2019, the company paid out cash dividends of \$5,958 million and repurchased shares worth \$6,965 million.

Moreover, it hiked its quarterly dividend by 10% to \$1.50 per share, which indicates an annualized dividend of \$6.00 per share. The raised dividend is payable Mar 26, 2020, to shareholders of record as of Mar 12.

Outlook

The company noted that fiscal 2019 was a year of significant progress on its One Home Depot investment plan. Home Depot is in the second year of the aforementioned plan. Through the two years, the company increased sales by more than \$9 million.

Backed by the progress on the One Home Depot investments, it provided a strong view for fiscal 2020. It expects sales growth of 3.5-4% for fiscal 2020, with comps growth of 14%.

Moreover, the company expects operating margin of 14% and net interest expenses of \$1.2 billion for fiscal 2020. Effective tax rate is anticipated to be 24%. For fiscal 2020, the company projects earnings per share of \$10.45, suggesting 2% growth from the reported in fiscal 2019.

Additionally, it plans to open six stores in fiscal 2020. It expects to repurchase shares worth at least \$5 billion. Capital expenditure is likely to be \$2.8 billion, with depreciation and amortization expenses of \$2.4 billion. Moreover, the company expects cash flow from operating activities of \$13.5 billion.

Quarter Ending 01/2020

Report Date	Feb 25, 2020
Sales Surprise	0.13%
EPS Surprise	8.06%
Quarterly EPS	2.28
Annual EPS (TTM)	10.25

Recent News

Home Depot Issues Business Updates On covid-19 Impact - Apr 1, 2020

Home Depot has stepped up preventive measures in response to rising cases of coronavirus. In this regard, the company has decided to close stores at 6 pm for sanitization and restocking purposes. Also, it is closely monitoring the number of customers at a given time in the store along with implementing social and physical distancing via marking floors. Further, the company has decided not to engage in spring promotions in a bid to avoid high traffic in stores.

Apart from these, Home Depot remains poised on safeguarding employees and customers via providing thermometers to store associates and those working in distribution centers. It has also reduced installation and other related services except those that are required for maintenance and repairment purposes.

Moving on, the company is adding 80 hours paid time off for full time employees, 40 hours paid time off for part time workers and 160 hours paid time off for elderly workers. Further, it is offering 14 days paid time off for employees who have been quarantined. Also, full-time and part-time workers will be paid \$100 and \$50 per week as well as double salary for overtime hours.

Home Depot Joins COVID-19 Fight, Adjusts Store Hours – Mar 18, 2020

In response to the government's public health guidance to contain the coronavirus outbreak and better serve customers, Home Depot is temporarily adjusting store operating hours in the United States. Beginning Mar 19, the company's stores will close at 6 p.m. The adjusted hours will give stores the ability to staff appropriately and provide additional time to restock shelves and perform cleaning.

In a separate release, the company also announced adjusted store operating hours for stores in Canada due to the coronavirus outbreak. Stores in Canada will also operate till 6 p.m. starting Mar 21.

Valuation

Home Depot shares are up 7.3% in the year-to-date period and 23.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 2.8% each in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 17.6% and 13.7%, respectively.

The S&P 500 index is down 9% in the year-to-date period but up 4% in the past year.

The stock is currently trading at 23.4X forward 12-month earnings, which compares to 21.72X for the Zacks sub-industry, 30.09X for the Zacks sector and 21.15X for the S&P 500 index.

Over the past five years, the stock has traded as high as 27.11X and as low as 14.42X, with a 5-year median of 20.13X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$246 price target reflects 24.55X forward 12-month earnings.

The table below shows summary valuation data for HD

Valuation Multiples - HD					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	23.4	21.72	30.09	21.15
	5-Year High	27.11	21.72	30.09	21.15
	5-Year Low	14.42	16.02	19.06	15.19
	5-Year Median	20.13	19	23.3	17.45
P/S F12M	Current	2.25	1.5	1.03	3.3
	5-Year High	2.36	1.51	1.11	3.44
	5-Year Low	1.44	1.06	0.8	2.54
	5-Year Median	1.83	1.27	0.93	3.02
EV/EBITDA TTM	Current	15.83	12.58	15.66	10.64
	5-Year High	16.8	12.89	16.33	12.86
	5-Year Low	11.02	8.46	10.9	8.28
	5-Year Median	13.34	10.77	12.56	10.77

As of 05/08/2020

Industry Analysis Zacks Industry Rank: Bottom 11% (224 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Fastenal Company (FAST)	Neutral	3
Lumber Liquidators Holdings Inc (LL)	Neutral	3
Lowes Companies Inc (LOW)	Neutral	3
Travis Perkins PLC (TVPKF)	Neutral	3
Walmart Inc (WMT)	Neutral	3
Beacon Roofing Supply Inc (BECN)	Underperform	4
Builders FirstSource Inc (BLDR)	Underperform	5
RH (RH)	Underperform	4

Industry Comparison Industry: Building Products - Retail				Industry Peers		
	HD	X Industry	S&P 500	BLDR	LL	LOW
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	5	3	3
VGM Score	B	-	-	C	B	C
Market Cap	251.81 B	1.48 B	20.19 B	2.09 B	215.44 M	86.24 B
# of Analysts	14	5	14	6	5	14
Dividend Yield	2.56%	0.00%	2.12%	0.00%	0.00%	1.93%
Value Score	C	-	-	B	C	B
Cash/Price	0.01	0.05	0.06	0.01	0.04	0.01
EV/EBITDA	15.56	7.94	11.95	7.29	12.79	13.73
PEG Ratio	2.24	1.73	2.60	NA	NA	1.31
Price/Book (P/B)	NA	1.17	2.75	2.50	1.34	44.40
Price/Cash Flow (P/CF)	18.89	6.13	10.78	5.94	6.32	14.92
P/E (F1)	24.04	17.51	19.85	17.51	NA	19.85
Price/Sales (P/S)	2.28	0.34	2.03	0.28	0.20	1.20
Earnings Yield	4.16%	5.37%	4.83%	5.70%	-0.13%	5.03%
Debt/Equity	-10.83	1.30	0.75	1.85	1.13	10.50
Cash Flow (\$/share)	12.41	2.88	7.01	3.01	1.19	7.66
Growth Score	A	-	-	C	A	C
Hist. EPS Growth (3-5 yrs)	19.23%	13.25%	10.87%	55.52%	-9.29%	15.53%
Proj. EPS Growth (F1/F0)	-4.91%	-24.06%	-9.87%	-51.11%	-101.03%	0.59%
Curr. Cash Flow Growth	0.60%	0.60%	5.88%	7.81%	-2.19%	-12.64%
Hist. Cash Flow Growth (3-5 yrs)	11.22%	10.93%	8.55%	62.81%	-15.29%	6.65%
Current Ratio	1.08	2.01	1.24	1.87	1.51	1.01
Debt/Capital	NA%	55.66%	44.23%	64.96%	53.09%	91.31%
Net Margin	10.20%	2.81%	10.68%	2.62%	0.88%	5.93%
Return on Equity	-599.49%	11.53%	16.36%	31.26%	10.63%	173.56%
Sales/Assets	2.13	1.82	0.55	2.23	1.88	1.77
Proj. Sales Growth (F1/F0)	0.59%	-4.24%	-2.26%	-6.25%	-8.55%	0.37%
Momentum Score	D	-	-	F	C	D
Daily Price Chg	2.17%	2.74%	2.40%	4.31%	2.74%	2.06%
1 Week Price Chg	3.01%	15.55%	0.53%	17.05%	26.78%	5.78%
4 Week Price Chg	16.33%	16.24%	2.68%	18.95%	31.35%	19.85%
12 Week Price Chg	-3.27%	-28.70%	-19.20%	-35.42%	-2.47%	-8.45%
52 Week Price Chg	20.48%	-23.03%	-8.44%	7.13%	-39.90%	7.47%
20 Day Average Volume	4,624,163	478,107	2,398,409	1,272,838	1,108,821	5,076,651
(F1) EPS Est 1 week change	-1.12%	0.00%	0.00%	-24.88%	0.00%	0.39%
(F1) EPS Est 4 week change	-1.34%	-14.38%	-6.95%	-42.42%	66.67%	-0.19%
(F1) EPS Est 12 week change	-7.14%	-29.76%	-15.68%	-53.38%	-101.45%	-12.07%
(Q1) EPS Est Mthly Chg	-1.55%	-15.85%	-13.12%	-63.84%	-7.45%	-0.43%

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	D
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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