

Hormel Foods(HRL)

\$51.54 (As of 08/25/20)

Price Target (6-12 Months): **\$55.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/24/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: B

Summary

Hormel Foods has outpaced the industry in the past three months. The company has been benefiting from increased demand in the retail channel amid the pandemic, a trend which was witnessed in third-quarter fiscal 2020 as well. During the quarter, earnings and sales topped the consensus mark and the latter grew year over year. The company's Grocery Products and Refrigerated Foods segments did well in particular. Results were aided by strength in retail and deli businesses, which helped counter declines in foodservice. While management expects such trends to be mirrored in the fourth quarter, it remains uncertain about the extent of foodservice recovery, performance of the overall food supply chain and macroeconomic conditions. Apart from this, management expects additional supply-chain costs of \$80-\$100 million for fiscal 2020 due to COVID-19.

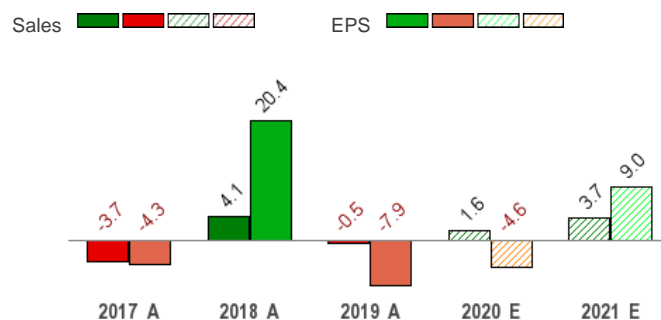
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$52.97 - \$39.01
20 Day Average Volume (sh)	1,308,737
Market Cap	\$27.8 B
YTD Price Change	14.3%
Beta	-0.04
Dividend / Div Yld	\$0.93 / 1.8%
Industry	Food - Meat Products
Zacks Industry Rank	Bottom 8% (233 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	12.1%
Last Sales Surprise	3.9%
EPS F1 Est- 4 week change	0.5%
Expected Report Date	11/24/2020
Earnings ESP	-3.3%
P/E TTM	30.1
P/E F1	31.1
PEG F1	4.9
P/S TTM	2.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,423 E	2,364 E	2,497 E	2,711 E	9,999 E
2020	2,384 A	2,422 A	2,381 A	2,545 E	9,645 E
2019	2,360 A	2,345 A	2,291 A	2,502 A	9,497 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.42 E	\$0.47 E	\$0.44 E	\$0.57 E	\$1.81 E
2020	\$0.45 A	\$0.42 A	\$0.37 A	\$0.46 E	\$1.66 E
2019	\$0.44 A	\$0.46 A	\$0.37 A	\$0.47 A	\$1.74 A

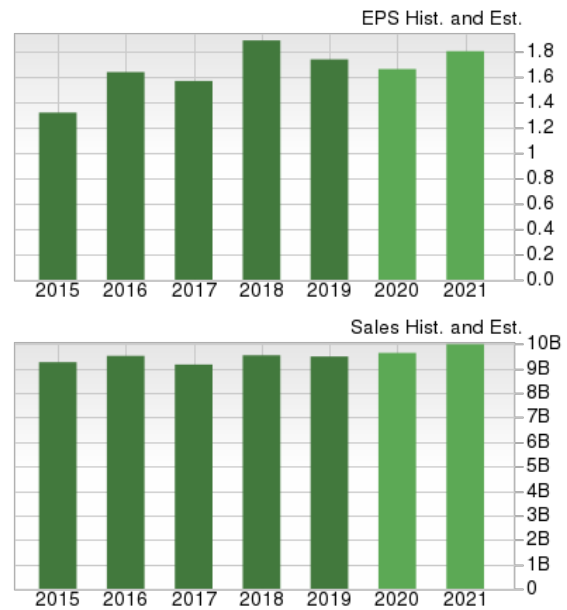
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/25/2020. The reports text is as of 08/26/2020.

Overview

Austin, MN-based **Hormel Foods Corporation (HRL)** is a leading manufacturer and marketer of various meat and food products in the U.S. and international markets. In fiscal 2017, Hormel Foods reported revenue results through five segments: On Nov 21, 2017, Hormel Foods declared that it has consolidated the Specialty Foods segment into the Grocery Products segment.

- **Grocery Products** (25% of total revenues in fiscal 2019): This segment consists primarily of the processing, marketing and sale of shelf-stable food products sold predominantly in the retail market.
- **Refrigerated Foods** (54.8% of total revenues in fiscal 2019): This segment includes the Hormel Refrigerated, Burke Corporation (Burke) and Dan's Prize operating segments. It consists primarily of the processing, marketing and sale of branded and unbranded pork and beef products for retail, food service and fresh-product customers.
- **Jennie-O Turkey Store** (14% of total revenues in fiscal 2019): This segment consists primarily of the processing, marketing and sale of branded and unbranded turkey products for retail, food service and fresh product customers.
- **International & Other** (6.2% of total revenues in fiscal 2019): This segment includes the Hormel Foods International ('HFI') operating segment, which manufactures markets and sells the company's various miscellaneous corporate products internationally.



The company concluded the divestiture of CytoSport business to PepsiCo. The transaction was valued at nearly \$465 million.



Reasons To Buy:

▲ **Coronavirus-Led Demand Aids Sales:** Shares of Hormel Foods have gained 13.2% in the past three months compared with the industry's growth of 4%. The company has been benefiting from increased demand in the retail channel amid the pandemic, a trend which was also witnessed in third-quarter fiscal 2020. Hormel Foods' net sales in the third quarter were \$2,381.5 million, which surpassed the Zacks Consensus Estimate of \$2,293 million. Moreover, the top line increased about 4% year over year, while organic sales grew around 2%. The company's Grocery Products and Refrigerated Foods segments did well in particular. Results were largely aided by strength in retail and deli businesses, which helped counter declines in foodservice. Such favorable trends, especially strength in retail business, are expected to be mirrored in the fourth quarter as well.

Hormel Foods continues to gain from strength in retail and deli businesses amid the pandemic. These trends are expected to be mirrored in the fourth quarter as well.

Channel-wise, U.S. retail net sales climbed 19% and U.S. deli net sales grew 4%. The company particularly gained from increased retail sales at all brands, thanks to the rising demand amid the coronavirus-led pantry loading and stay-at-home trends. In fact, Hormel Foods continued to see market-share gains in several categories. Further, the company saw robust strength in e-commerce, including direct to consumer as well as online grocery pickup and delivery. Certainly, the company's e-commerce investments are paying off.

▲ **Brand Strength & Innovation:** Strength in brands like Bacon 1, Fire Braised, Austin Blues, Café H, Natural Choice, Burke, Fontanini, as well as Sadler's Smokehouse (acquired recently) aided the company's growth in third-quarter fiscal 2020. Management informed that the pandemic-led demand further accelerated for these brands. Well, the company has been making strategic advertisement investments to support growth of its brands. Additionally, the company focuses on launching products to meet consumers' preferences. In this regard, Hormel Foods' has been conducting virtual products showcases amid the coronavirus outbreak.

▲ **Focus on Buyouts:** Hormel Foods intends to strengthen its business on the back of strategic acquisitions. In this regard, the company acquired a Texas-based pit-smoked meats company, Sadler's Smokehouse (completed on Mar 2, 2020). The buyout is in sync with Hormel Foods' initiatives to strengthen position in foodservice and is already yielding. Further, the Columbus (completed on Nov 27, 2017) and Fontanini (completed on Aug 17, 2017) buyouts have been aiding performance. Notably, through the inclusion of Columbus, the company has been able to develop the new Hormel deli solutions division, which is included within refrigerated foods, and is helping meet retailer needs. Also, the Ceratti acquisition (completed on Aug 24, 2017) is aiding the International segment. These buyouts are expected to continue boosting performance in the forthcoming periods.

▲ **Efforts to Enhance Capacity:** Hormel Foods is focused on expanding capacity. Along with its fourth-quarter fiscal 2019 results, the company revealed plans to construct state-of-the-art dry sausage production facility for its Columbus charcuterie products. The envisioned plant will help Hormel Foods expand Columbus products distribution to the East Coast. Also, the company is on track with its Burke pizza toppings plant expansion, Project Orion as well as a new dry sausage facility for the remainder of fiscal 2020.

▲ **Financial Flexibility:** In third-quarter fiscal 2020, Hormel Foods generated cash of \$330 million from operating activities, while its operating free cash flow amounted to \$242 million. The company looks poised on the dividend-payout front. On Aug 17, Hormel Foods paid out its 368th straight quarterly dividend. Hormel Foods' current annual dividend rate of 93 cents per share reflects an 11% rise from the prior-year period. Notably, the company has a dividend payout of 54.5%, dividend yield of 1.8% and free cash flow yield of 2.7%. With an annual free cash flow return on investment of 12.3%, ahead of the industry's 9.7%; the dividend payment is likely to be sustainable.

Reasons To Sell:

▼ **Escalated Cost Concerns:** Hormel Foods' third-quarter fiscal 2020 operating results were affected by escalated costs associated with COVID-19. During the quarter, the company absorbed roughly \$40 million due to additional supply-chain costs stemming from the pandemic-led soft production volumes, employee bonuses and costs to ensure better safety measures in production units. These costs amounted to \$60 million year to date. Management anticipates total additional supply-chain costs of \$80-\$100 million for fiscal 2020 and \$20-\$40 million for the fourth quarter.

Hormel Foods' anticipates total additional supply-chain costs of \$80-\$100 million for fiscal 2020 and \$20-\$40 million for the fourth quarter on account of COVID-19.

▼ **Foodservice Business Challenges:** While Hormel Foods' retail business has been performing strongly, the company is seeing declines in its foodservice business amid the pandemic. This could be attributed to reduced demand from restaurants, hotels, distributors and various other foodservice venues in the wake of COVID-19 induced social distancing. During the third quarter of fiscal 2020, net sales in the U.S. foodservice channel declined 19%.

During its earnings call, management noted that although its foodservice business saw a rebound, it remains below year-ago levels. This trend is also likely to persist in the fourth quarter. In fact, while management expects its overall third-quarter sales trend to be mirrored in the fourth quarter, it remains uncertain about the extent of foodservice recovery, performance of the overall food supply chain and macroeconomic conditions.

▼ **Production Related Headwinds:** Hormel Foods' workers have been working relentlessly to cater to the elevated demand and the company is producing much more than ever in some categories. However, in some core categories, robust demand and the adverse impact of the pandemic on the company's manufacturing facilities have compelled it to explore other solutions to elevate production. This includes reliance on the co-manufacturing allies. Hormel Foods expects factors like limited availability of labor, manufacturing inefficiencies (related to pandemic-led safety measures) and unseasonably reduced inventory levels to hinder its ability to cater to the rising demand for some products in the fourth quarter.

▼ **Industry Related Threats:** The food industry is witnessing stiff competition and aggressive promotional environment. The company faces intense competition from other food companies on the grounds of quality, prices and availability. To meet such competitive pressure effectively, Hormel Foods may have to lower prices for products or indulge in marketing activities to maintain market share. Additionally, the outbreak of any livestock diseases is likely to disrupt the company's operations and profitability.

Last Earnings Report

Hormel Foods Earnings Top Estimates Amid High Costs

Hormel Foods posted third-quarter fiscal 2020 results, wherein earnings of 37 cents per share beat the Zacks Consensus Estimate of 33 cents. The bottom line remained flat year over year. While sales and volumes increased year over year, the company's operating results were affected by escalated costs associated with COVID-19.

During the quarter, the company absorbed roughly \$40 million due to additional supply-chain costs stemming from the pandemic-led soft production volumes, employee bonuses and costs to ensure better safety measures in production units. These costs amounted to \$60 million year to date. Management anticipates total additional supply-chain costs of \$80-\$100 million for fiscal 2020 and \$20-\$40 million for the fourth quarter.

Net sales in the third quarter were \$2,381.5 million, which surpassed the Zacks Consensus Estimate of \$2,293 million. Moreover, the top line increased about 4% year over year, while organic sales grew around 2%. The company particularly gained from increased sales in the retail and deli businesses, together with a revival in the foodservice business. These trends are expected to be reflected in the fourth quarter as well. Channel-wise, U.S. retail net sales climbed 19% and U.S. deli net sales grew 4%. However, International net sales dropped 2% and the U.S. foodservice net sales declined 19%.

Selling, general and administrative expenses rose slightly to \$181.1 million due to increased employee-related costs, largely countered by reduced advertising investments. Operating margin in this quarter contracted 70 basis points (bps) to 10.5% due to escalated costs related to coronavirus.

Segment Details

Sales in the **Grocery Products** unit rose nearly 7% to \$580.8 million and volumes were up 6% on solid consumer demand for center store brands such as Herdez, SKIPPY and Dinty Moore, to name a few. Increased sales and a better mix aided segment profit, which grew 36% year over year.

Net sales in the **Jennie-O Turkey Store** segment dropped 4% to \$286.8 million, with volumes declining 9%. Sales were marred by weak foodservice, commodity and whole-bird sales, partly made up by increased retail sales, which were fueled by Jennie-O lean ground products. Segment profit tanked 67% due to elevated manufacturing and live production costs accountable to impacts from three ongoing plant pauses. Also, high COVID-19 costs dented profits.

The company's **Refrigerated Foods** segment generated sales of \$1,363.1 million, up 5% year over year. Also, volumes grew 8%. Sales and volumes were fueled by robust demand for branded retail and deli product sales, greater fresh pork commodity sales along with contributions from Sadler's Smokehouse buyout. These upsides countered declines in the foodservice business. Applegate, Hormel Black Label and Columbus brands aided sales in particular. However, segment profit decreased 11% due to sluggish foodservice sales, high costs related to coronavirus and hog hedge-related losses.

International & Other sales inched up 2% to \$150.8 million, while volumes fell 5%. Higher sales in China and branded exports were somewhat countered by reduced fresh pork export sales. Notably, the company saw exceptionally solid global demand for SKIPPY peanut butter and SPAM luncheon meat. Segment profit improved 26% on better results in China, along with the company's partners in Europe, Philippines and South Korea.

Balance Sheet & Cash Flow

The company ended the quarter with cash and cash equivalents of \$1,729.4 million and long-term debt of \$1,046.8 million (excluding current maturities). In third-quarter fiscal 2020, Hormel Foods generated cash of \$330 million from operating activities. Capital expenditure summed \$88 million in the quarter, resulting in operating free cash flow of \$242 million. Management expects capital expenditure of \$350 million for fiscal 2020. During the quarter, Hormel Foods did not make share buybacks. Nonetheless, on Aug 17, the company paid out its 368th straight quarterly dividend. Hormel Foods' current annual dividend rate of 93 cents per share reflects an 11% rise from the prior-year period.

Outlook

While management expects its third-quarter sales trend to be mirrored in the fourth quarter, it remains uncertain about the extent of foodservice recovery, performance of the overall food supply chain and macroeconomic conditions. The company further informed that although its foodservice business saw a rebound, it remains below year-ago levels. This trend is also likely to persist in the fourth quarter.

Management noted that its workers have been working relentlessly to cater to the elevated demand and the company is producing much more than ever in some categories. However, in some core categories, robust demand and the adverse impact of the pandemic on the company's manufacturing facilities have compelled it to explore other solutions to elevate production. This includes reliance on the co-manufacturing allies. Hormel Foods expects factors like limited availability of labor, manufacturing inefficiencies (related to pandemic-led safety measures) and unseasonably reduced inventory levels to hinder its ability to cater to the rising demand for some products in the fourth quarter.

Quarter Ending **07/2020**

Report Date	Aug 25, 2020
Sales Surprise	3.86%
EPS Surprise	12.12%
Quarterly EPS	0.37
Annual EPS (TTM)	1.71

Recent News

Hormel Foods' Jennie-O Turkey Reopens Facilities – May 9, 2020

Hormel Foods' Jennie-O Turkey unit informed that it has reopened its Melrose facility, which underwent a voluntary pause owing to the coronavirus outbreak. Earlier in the week, Jennie-O Turkey Store announced that it had reopened its Benson Avenue facility, in Willmar as well.

Hormel Foods Declares Dividend - Mar 24, 2020

Hormel Foods declared dividend of 23.25 cents a share, which is payable on May 15, 2020 to shareholders of record as on Apr 13.

Valuation

Hormel Foods shares are up 16% in the year-to-date period and 24% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 11.6% and 4.4%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry is down 13%, while the sector gained 0.5%.

The S&P 500 index is up 8.2% in the year-to-date period and 22.6% in the past year.

The stock is currently trading at 28.92X forward 12-month earnings, which compares to 18.93X for the Zacks sub-industry, 20.26X for the Zacks sector and 23.12X for the S&P 500 index.

Over the past five years, the stock has traded as high as 29.65X and as low as 17.63X, with a 5-year median of 22.72X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$55 price target reflects 30.86X forward 12-month earnings.

The table below shows summary valuation data for HRL

Valuation Multiples - HRL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	28.92	18.93	20.26	23.12
	5-Year High	29.65	19.1	22.37	23.12
	5-Year Low	17.63	11.48	16.63	15.25
	5-Year Median	22.72	15.07	19.58	17.58
P/S F12M	Current	2.8	0.94	9.6	3.77
	5-Year High	2.86	1.11	11.15	3.77
	5-Year Low	1.58	0.63	8.1	2.53
	5-Year Median	2.08	0.94	9.89	3.05
EV/EBITDA F12M	Current	19.6	10.32	35.47	12.89
	5-Year High	19.6	19.98	37.49	14.22
	5-Year Low	11.63	7.52	25.79	9.05
	5-Year Median	14	9.81	33.83	11.02

As of 08/25/2020

Industry Analysis Zacks Industry Rank: Bottom 8% (233 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Tyson Foods, Inc. (TSN)	Outperform	3
Conagra Brands Inc. (CAG)	Neutral	3
General Mills, Inc. (GIS)	Neutral	3
Pilgrims Pride Corporation (PPC)	Neutral	5
Red River Bancshares, Inc. (RRBI)	Neutral	2
Sanderson Farms, Inc. (SAFM)	Neutral	4
Industrias Bachoco, S.A. de C.V. (IBA)	Underperform	NA
Post Holdings, Inc. (POST)	Underperform	5

Industry Comparison Industry: Food - Meat Products				Industry Peers		
	HRL	X Industry	S&P 500	IBA	PPC	SAFM
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-		5	4
VGM Score	B	-	-	-	A	B
Market Cap	27.78 B	3.93 B	23.77 B	1.86 B	3.93 B	2.56 B
# of Analysts	6	3	14		2	1
Dividend Yield	1.80%	0.00%	1.65%	1.88%	0.00%	1.11%
Value Score	C	-	-	-	A	C
Cash/Price	0.02	0.06	0.07	0.42	0.14	0.02
EV/EBITDA	20.25	7.14	13.35	3.37	5.98	12.63
PEG Ratio	4.79	3.92	3.03	NA	3.70	NA
Price/Book (P/B)	4.43	1.55	3.17	0.99	1.66	1.86
Price/Cash Flow (P/CF)	24.82	7.45	12.81	7.45	5.77	12.52
P/E (F1)	30.48	27.89	21.72	NA	24.78	NA
Price/Sales (P/S)	2.87	0.63	2.47	0.63	0.33	0.73
Earnings Yield	3.22%	3.22%	4.45%	NA%	4.03%	-1.52%
Debt/Equity	0.17	0.17	0.75	0.03	1.19	0.17
Cash Flow (\$/share)	2.08	2.08	6.93	4.99	2.79	9.19
Growth Score	A	-	-	NA	B	B
Hist. EPS Growth (3-5 yrs)	5.79%	-2.25%	10.41%	-6.57%	-13.84%	-31.56%
Proj. EPS Growth (F1/F0)	-4.41%	-9.44%	-4.92%	NA	-59.88%	-169.72%
Curr. Cash Flow Growth	-8.04%	-5.88%	5.20%	-26.44%	16.70%	3.93%
Hist. Cash Flow Growth (3-5 yrs)	8.67%	3.13%	8.50%	-11.37%	-4.98%	-8.98%
Current Ratio	2.39	2.39	1.33	3.91	1.89	3.04
Debt/Capital	14.30%	14.30%	44.20%	3.35%	54.38%	14.40%
Net Margin	9.59%	2.24%	10.25%	5.21%	2.24%	-0.06%
Return on Equity	15.20%	7.89%	14.66%	7.86%	7.89%	-2.65%
Sales/Assets	1.13	1.26	0.51	1.10	1.67	1.91
Proj. Sales Growth (F1/F0)	1.55%	1.55%	-1.45%	-6.94%	0.00%	1.72%
Momentum Score	B	-	-	-	F	F
Daily Price Chg	-2.09%	0.00%	-0.03%	0.84%	0.53%	0.43%
1 Week Price Chg	0.86%	-1.60%	-1.45%	0.40%	-4.92%	-2.27%
4 Week Price Chg	1.94%	1.94%	3.76%	5.20%	0.31%	3.28%
12 Week Price Chg	5.70%	0.94%	5.99%	0.22%	-22.81%	-11.99%
52 Week Price Chg	21.53%	-20.70%	4.07%	-28.90%	-46.39%	-18.56%
20 Day Average Volume	1,308,737	193,268	1,880,903	5,169	958,530	193,268
(F1) EPS Est 1 week change	0.30%	0.00%	0.00%	NA	0.00%	-2.71%
(F1) EPS Est 4 week change	0.50%	-10.35%	1.03%	NA	-64.29%	-25.90%
(F1) EPS Est 12 week change	-0.40%	-10.35%	3.40%	NA	-43.97%	-64.85%
(Q1) EPS Est Mthly Chg	-1.09%	-6.79%	0.00%	-69.84%	NA	-41.46%

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	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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