

## Interactive Brokers (IBKR)

**\$50.15** (As of 01/20/20)

Price Target (6-12 Months): **\$54.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 01/17/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:NA

Value: D

Growth: D

Momentum: NA

## Summary

Shares of Interactive Brokers have underperformed the industry over the past year. The company's efforts to development of proprietary software (including IBKR Lite) will continue to support financials in the quarters ahead. Moreover, low level of compensation expenses and increase in emerging market customer base are expected to support the company's profitability. Further, strong balance sheet position will enable it to continue enhancing shareholder value through steady capital deployments. However, mounting operating expenses mainly due to technology upgrades and continuous investment in franchise remains a major near-term concern. Thus, higher expenses are expected to hurt bottom-line growth to quite an extent. Additionally, the company's revenues are expected to be hurt to some extent because of relatively lower interest rates.

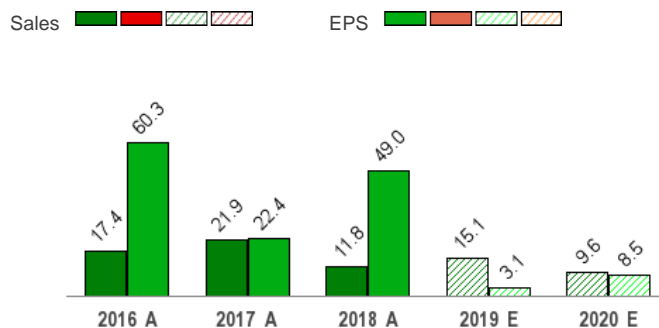
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	<b>\$59.32 - \$44.50</b>
20 Day Average Volume (sh)	<b>395,249</b>
Market Cap	<b>\$20.8 B</b>
YTD Price Change	<b>7.6%</b>
Beta	<b>0.76</b>
Dividend / Div Yld	<b>\$0.40 / 0.8%</b>
Industry	<a href="#">Financial - Investment Bank</a>
Zacks Industry Rank	<b>Bottom 37% (159 out of 254)</b>

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>-10.4%</b>
Last Sales Surprise	<b>-3.5%</b>
EPS F1 Est- 4 week change	<b>NA</b>
Expected Report Date	<b>01/21/2020</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>24.0</b>
P/E F1	<b>21.3</b>
PEG F1	<b>1.0</b>
P/S TTM	<b>8.1</b>

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					2,400 E
2019	558 A	413 A	466 A		2,190 E
2018	527 A	445 A	439 A	492 A	1,903 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020					\$2.55 E
2019	\$0.64 A	\$0.43 A	\$0.45 A		\$2.35 E
2018	\$0.63 A	\$0.58 A	\$0.51 A	\$0.57 A	\$2.28 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 01/20/2020. The reports text and the analyst-provided sales and EPS estimates are as of 01/21/2020.

## Overview

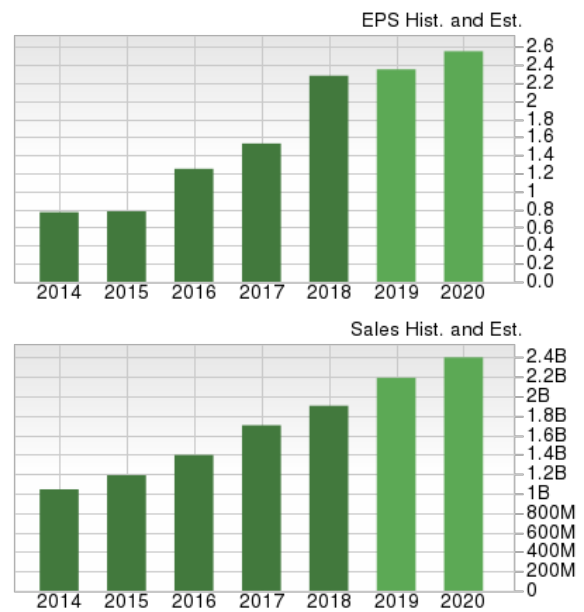
Headquartered in Greenwich, CT, Interactive Brokers Group Inc. operates as an automated global electronic market maker and broker. The company specializes in routing orders, besides executing and processing trades in securities, futures, foreign exchange instruments, bonds and mutual funds on more than 120 electronic exchanges and market centers worldwide. Incorporated in 1977, the company operates through two principal business segments:

- **Electronic Brokerage** (comprising 96% of total revenues in 2018): As an electronic broker, the company executes, clears and settles trades globally for both traditional brokers and prime brokers. From a single account in any major currency, customers can access several financial markets worldwide and trade across multiple asset classes denominated in 24 different currencies.
- **Market Making** (4%): The company provides continuous bid and offers quotations on securities and futures products listed on some electronic exchanges around the world. Despite the segment being part of discontinued operations, the company intends to continue conducting certain proprietary trading activities in stocks and related instruments.

The 'Corporate' segment includes corporate related activities, inter-segment eliminations and net gains and losses on positions held as part of the company's overall currency diversification strategy.

Prior to its IPO in May 2017, Interactive Brokers conducted its business through a limited liability company (LLC) structure. In connection with the IPO, the company purchased 10.0% of the membership interest in IBG LLC. As of Sep 30, 2019, Interactive Brokers' primary assets were its ownership of approximately 18.5% of the membership interests in IBG LLC. The remaining 81.5% of the membership interests are held by IBG Holdings LLC.

As of Sep 30, 2019, Interactive Brokers had \$67.8 billion in total assets, \$33.1 billion in cash and cash equivalents (including segregated cash and securities), and \$1.4 billion in stockholders' equity.



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## Reasons To Buy:

- ▲ Interactive Brokers' position with respect to the interface of four broad historical trends is very impressive. As part of its globalization, the company processes trades in stocks, futures, options and forex on more than 120 exchanges across several countries and in 24 currencies. Unlike many of its peers, the company has a very low level of compensation expense, relative to net revenues (nearly 15% at the end of the first nine months of 2019), primarily driven by its technological excellence.
- ▲ Since its inception, Interactive Brokers has mainly been focusing on developing proprietary software to automate broker-dealer functions. Thus, the company has been a pioneer in the field of developing and applying technology as a financial intermediary in the capital markets where it operates. Further, this has resulted in steady improvement in revenues. Over the last five years (2014-2018), its top line witnessed a CAGR of 16.2%, with the uptrend continuing in the first nine months of 2019 as well. This was mainly driven by rise in interest income, commissions and the company's restructuring efforts. The momentum is expected to continue, given the improvement in Daily Average Revenue Trades (DARTs). Notably, the launch of IBKR Lite will enable investors trade commission free and is, thus expected to result in a rise in the company's market share.
- ▲ Unlike other companies in the same space, which hike dividends at frequent intervals, Interactive Brokers has been consistent with its dividend payment for a long time. In fact, the company uses no debt to finance its operations. Thus, given a solid liquidity position, the company will be able to sustain the current level of dividends in the future as well and continue to enhance shareholder value. Notably, the company is evaluating its dividend funding and intends to begin sourcing these from the subsidiaries that accrued brokerage earnings over the coming quarters.
- ▲ Interactive Brokers has continued to explore opportunities in the emerging markets of Taiwan, Mexico and India. The diversification helps it experience revenue stability. With the Central Clearing Houses as its counterparties, sole trading with exchange-listed instruments and continuous monitoring of customer positions, the company has been able to restrict its credit risk to a great extent.

Low level of compensation expenses, development of proprietary software and increasing emerging market customers are expected to support Interactive Brokers' revenues in the quarters ahead.

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### Reasons To Sell:

- ▼ Interactive Brokers has been witnessing a steady increase in non-interest expenses. Over the last three years, expenses saw a CAGR of 5.5% (ended 2018). The increase was mainly due to higher execution, clearing and distribution fees. The uptrend persisted in the first nine months of 2019. Expenses are likely to remain elevated, going forward, as the company continues to invest in franchise and technology upgrades.
- ▼ Interactive Brokers' trailing 12-month return on equity (ROE) undercuts its growth potential. Although the company's ROE of 2.14% gradually improved over the last few years, it compares unfavorably with ROE of 12.26% for the industry, reflecting that it is less efficient in using shareholder funds than its peers.
- ▼ Shares of Interactive Brokers have underperformed the industry so far this year. Moreover, the company's 2020 earnings estimates have moved 7.8% lower over the past 60 days. Further, the stock seems overvalued when compared with the broader industry. Its current price-to-book and price-earnings (F1) ratios are above the respective industry averages. Therefore, given the concerns and downward estimate revisions, the stock has limited upside potential.

Persistently increasing expenses are expected to hurt Interactive Brokers' bottom-line growth in the near term. Moreover, a stretched valuation indicates limited upside potential for the stock.

## Last Earnings Report

### Interactive Brokers Q3 Earnings Down, Revenues Up Y/Y

Interactive Brokers recorded third-quarter 2019 earnings per share of 45 cents. The figure compared unfavorably with the prior-year quarter's earnings of 51 cents.

Results were adversely impacted by rise in operating expenses and lower interest rates. However, the Electronic Brokerage segment's performance was decent in the quarter. Also, increase in revenues and rise in DARTs acted as tailwinds.

Interactive Brokers reported comprehensive income available to common shareholders of \$30 million or 39 cents per share, down from \$38 million or 50 cents per share in the prior-year quarter.

Quarter Ending **09/2019**

Report Date	Oct 15, 2019
Sales Surprise	-3.52%
EPS Surprise	-10.42%
Quarterly EPS	0.45
Annual EPS (TTM)	2.09

### Revenues & Expenses Rise

Total net revenues were \$466 million, up 6.2% year over year. The rise was driven by higher commissions and interest income as well as stable trading gains, which were partially offset by rise in interest expenses. However, the top line lagged the Zacks Consensus Estimate of \$483 million.

Total non-interest expenses increased 13.5% from the year-ago quarter to \$185 million. Rise in all expense components except for communications costs were the reasons behind the increase.

Income before income taxes was \$281 million, down 1.8% from the prior-year quarter. Pre-tax profit margin was 60%, down from 63% a year ago.

### Quarterly Segmental Performance

*Electronic Brokerage:* Net revenues grew 14% year over year to \$506 million. Pre-tax income rose 13.4% to \$331 million. Total DARTs for cleared and execution-only customers were 859,000, up 12.6% from the year-ago quarter. Pre-tax profit margin was 65%, down from 66%.

*Market Making:* Net revenues were \$17 million, up 6.3% from the prior-year quarter. Pre-tax income was \$8 million, up 14.3%. Pre-tax profit margin was 47% compared with 44% in the year-ago quarter.

The *Corporate* segment reported negative revenues of \$57 million compared with negative revenues of \$21 million in the year-ago quarter. Pre-tax loss was \$58 million compared with loss of \$23 million a year ago.

### Strong Capital Position

As of Sep 30, 2019, cash and cash equivalents (including cash and securities set aside for regulatory purposes) totaled \$33.1 billion compared with \$25.7 billion as of Dec 31, 2018.

As of Sep 30, 2019, total assets were \$67.8 billion compared with \$60.5 billion on Dec 31, 2018. Total equity was \$7.7 billion compared with \$7.2 billion at the end of December 2018.

### Outlook

The company anticipates a 25 basis points increase/decrease in interest rates to lead to an increase/decrease in net interest income by \$21 million.

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## Recent News

### Interactive Brokers' December DARTs Decline Sequentially – Jan 2, 2020

Interactive Brokers released its Electronic Brokerage segment's performance metrics for December 2019. The segment, which deals with the clearance and settlement of trades for individual and institutional clients globally, reported a decrease in DARTs.

Total client DARTs were 771,000, down 6% from November 2019 and 19% from December 2018. On an annualized basis, the company recorded Cleared Average DARTs per customer accounts of 253,000. This reflects a fall of 7% sequentially and 30% year over year.

On the other hand, total customer accounts grew 1% from the prior month and 15% from the prior-year month to 689,900. Further, net new accounts were 8,500, rising 6% from November 2019 and 52% from December 2018.

Interactive Brokers' total options contracts were 30.9 million, up 10% from November 2019 and 8% year over year. Futures contracts grew 12% from the prior month but fell 24% from the year-ago month to 9.3 million.

At the end of December, client equity was \$174.1 billion, up 4% sequentially and 36% year over year. Further, Interactive Brokers recorded client credit balance of \$57.9 billion, up 2% on a sequential basis and 17% from December 2018. The company's customer margin loan balance of \$31 billion growing 14% from November 2019 and 15% from the prior-year month.

### Interactive Brokers' November DARTs Rise Sequentially – Dec 2, 2019

Interactive Brokers released its Electronic Brokerage segment's performance metrics for November 2019. The segment, which deals with the clearance and settlement of trades for individual and institutional clients globally, reported an increase in DARTs.

Total client DARTs were 822,000, up 3% from October 2019 but down 9% from November 2018. On an annualized basis, the company recorded Cleared Average DARTs per customer accounts of 275,000. This reflects a rise of 2% sequentially but a decline of 21% year over year.

On the other hand, total customer accounts grew 1% from the prior month and 15% from the prior-year month to 681,400. Further, net new accounts were 8,000, rising 11% from October 2019 and 7% from November 2018.

Interactive Brokers' total options contracts were 28.1 million, down 14% from October 2019 and 4% year over year. Futures contracts plunged 24% from the prior month and 35% from the year-ago month to 8.3 million.

At the end of November, client equity was \$167.3 billion, up 3% sequentially and 23% year over year. Further, Interactive Brokers recorded client credit balance of \$56.7 billion, up slightly on a sequential basis and 12% from November 2018. The company's customer margin loan balance of \$27.1 billion rising 7% from September 2019 but down 4% from the prior-year month.

### Interactive Brokers' October DARTs Decline Sequentially - Nov 1, 2019

Interactive Brokers released its Electronic Brokerage segment's performance metrics for October 2019. The segment, which deals with the clearance and settlement of trades for individual and institutional clients globally, reported a decrease in DARTs.

Total client DARTs were 797,000, down 5% from September 2019 and 19% from October 2018. On an annualized basis, the company recorded Cleared Average DARTs per customer accounts of 270,000. This reflects a fall of 6% sequentially and 30% year over year.

On the other hand, total customer accounts grew 1% from the prior month and 15% from the prior-year month to 673,400. Further, net new accounts were 7,200, rising 7% from September 2019 but declining 24% from October 2018.

Interactive Brokers' total options contracts were 32.6 million, up 6% from September 2019 but down 12% year over year. Futures contracts were on par with the prior month but fell 30% from the year-ago month to 11 million.

At the end of October, client equity was \$162.1 billion, up 4% sequentially and 21% year over year. Further, Interactive Brokers recorded client credit balance of \$56.6 billion, up 2% on a sequential basis and 11% from October 2018. The company's customer margin loan balance of \$25.3 billion declined 1% from September 2019 and 12% from the prior-year month.

### Interactive Brokers Announces the Launch of IBKR Lite - Sep 26, 2019

To garner further market share in online trading, Interactive Brokers is set to launch IBKR Lite service, which will provide U.S. stock market investors "commission-free, unlimited trades on US exchange-listed stocks and Exchange Traded Funds." Notably, the company's existing services will be rebranded as IBKR Pro.

Thomas Peterffy, Chairman and CEO of Interactive Brokers said, "In order to attract a broader audience, we wanted to remove any impediments to opening an IBKR account. With the addition of no commissions or fees to trade US exchange-listed stocks and ETFs, no account minimums, and no cost to maintain an account for IBKR Lite, we believe Interactive Brokers will offer the best pricing options for both professional and retail investors."

IBKR Lite will be made available to existing and new clients, and they will be able to switch between the two services "up to three times and then once per quarter."

Peterffy further stated, "With Interactive Brokers, clients can choose to pay no commissions and have their orders routed to market makers like many other retail brokers do or pay Interactive Brokers' ultra-low commissions and receive professional executions through our IB SmartRouting system."

As IBKR Lite will enable retail investors to trade stocks and ETFs almost free of cost, it is expected to attract many. This is likely to support Interactive Brokers' financials at a time when low interest rates and significant volatility in the markets is hurting the brokerage industry.

### Dividend Update

On Oct 15, 2019, Interactive Brokers declared a quarterly cash dividend of 10 cents per share. The dividend was paid on Dec 13 to shareholders of record as of Nov 29.

### Valuation

Interactive Brokers' shares are down 3.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 12.9% and 11.7% over the past year, respectively.

The S&P 500 index is up 23.8% in the past year.

The stock is currently trading at 20.11X forward 12 months earnings, which compares to 12.30X for the Zacks sub-industry, 14.73X for the Zacks sector and 19.20X for the S&P 500 index.

Over the past five years, the stock has traded as high as 43.72X and as low as 16.36X, with a 5-year median of 24.52X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$54 price target reflects 21.69X forward earnings.

The table below shows summary valuation data for IBKR

Valuation Multiples - IBKR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.11	12.3	14.73	19.2
	5-Year High	43.72	15.3	16.21	19.34
	5-Year Low	16.36	6.05	12.01	15.17
	5-Year Median	24.52	11.42	13.98	17.44
P/B TTM	Current	2.72	2.35	2.86	4.55
	5-Year High	4.89	3	2.89	4.55
	5-Year Low	2.25	1.47	1.83	2.85
	5-Year Median	2.88	2.2	2.51	3.61
P/S F12M	Current	9.97	3.63	6.53	3.57
	5-Year High	16.03	4.53	6.61	3.57
	5-Year Low	8.01	2.8	5.2	2.54
	5-Year Median	10.15	3.63	6.04	3

As of 01/20/2020

## Industry Analysis Zacks Industry Rank: Bottom 37% (159 out of 254)



## Top Peers

BGC Partners, Inc. (BGCP)	Neutral
E*TRADE Financial Corporation (ETFC)	Neutral
Evercore Inc (EVR)	Neutral
Ladenburg Thalmann Financial Services Inc (LTS)	Neutral
Cowen Group, Inc. (COWN)	Underperform
Oppenheimer Holdings, Inc. (OPY)	NA
SBI Holdings Inc. (SBHGF)	NA
Stifel Financial Corporation (SF)	NA

Industry Comparison Industry: Financial - Investment Bank				Industry Peers		
	IBKR Neutral	X Industry	S&P 500	AMTD Outperform	ETFC Neutral	SCHW Neutral
<b>VGM Score</b>	-	-	-	<b>C</b>	<b>C</b>	<b>B</b>
Market Cap	20.83 B	544.43 M	24.65 B	27.37 B	11.44 B	61.99 B
# of Analysts		3	13	7	3	7
Dividend Yield	0.80%	0.70%	1.73%	2.45%	1.20%	1.41%
<b>Value Score</b>	<b>D</b>	-	-	<b>D</b>	<b>B</b>	<b>B</b>
Cash/Price	1.91	0.38	0.04	0.49	0.16	0.59
EV/EBITDA	-14.44	5.31	14.11	5.31	6.58	6.86
PEG Ratio	1.02	1.58	2.08	1.50	1.65	3.07
Price/Book (P/B)	2.72	1.89	3.39	3.19	1.94	3.40
Price/Cash Flow (P/CF)	106.42	9.22	13.81	10.77	9.15	15.68
P/E (F1)	21.68	11.73	19.19	16.80	12.84	18.42
Price/Sales (P/S)	8.07	1.59	2.69	4.55	3.89	5.78
Earnings Yield	4.97%	8.53%	5.21%	5.96%	7.79%	5.42%
Debt/Equity	0.00	0.41	0.72	0.41	0.24	0.40
Cash Flow (\$/share)	0.47	2.72	6.94	4.69	5.11	3.08
<b>Growth Score</b>	<b>D</b>	-	-	<b>C</b>	<b>D</b>	<b>C</b>
Hist. EPS Growth (3-5 yrs)	43.80%	12.15%	10.56%	28.24%	39.06%	28.77%
Proj. EPS Growth (F1/F0)	NA%	11.73%	7.57%	-27.15%	-6.54%	-3.52%
Curr. Cash Flow Growth	45.94%	31.63%	14.73%	17.86%	46.38%	38.26%
Hist. Cash Flow Growth (3-5 yrs)	28.34%	14.18%	9.00%	21.50%	11.88%	23.74%
Current Ratio	1.12	1.31	1.24	1.17	0.28	0.30
Debt/Capital	0.00%	27.30%	42.99%	29.23%	17.67%	25.81%
Net Margin	6.19%	5.73%	11.14%	36.72%	35.79%	34.55%
Return on Equity	2.14%	12.26%	17.16%	27.18%	18.41%	20.22%
Sales/Assets	0.04	0.23	0.55	0.15	0.05	0.04
Proj. Sales Growth (F1/F0)	7.05%	5.28%	4.16%	-12.15%	-8.60%	0.41%
<b>Momentum Score</b>	<b>NA</b>	-	-	<b>A</b>	<b>F</b>	<b>A</b>
Daily Price Chg	0.72%	0.00%	0.27%	-1.33%	0.39%	-1.35%
1 Week Price Chg	2.75%	0.78%	0.39%	1.55%	1.98%	1.68%
4 Week Price Chg	5.82%	0.34%	2.95%	0.90%	1.76%	0.29%
12 Week Price Chg	9.93%	10.58%	7.76%	31.18%	14.28%	17.93%
52 Week Price Chg	-5.91%	0.00%	22.29%	-7.05%	-5.99%	3.03%
20 Day Average Volume	395,249	88,293	1,536,375	3,429,327	1,872,290	7,079,946
(F1) EPS Est 1 week change	NA%	0.00%	0.00%	0.33%	-1.29%	2.25%
(F1) EPS Est 4 week change	NA%	0.00%	0.00%	0.11%	-0.54%	2.70%
(F1) EPS Est 12 week change	NA%	0.00%	-0.40%	4.39%	2.23%	2.08%
(Q1) EPS Est Mthly Chg	NA%	0.00%	0.00%	-0.55%	-3.10%	2.78%



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## 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.

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### 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	D
Growth Score	D
Momentum Score	NA
VGM Score	NA

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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### Disclosures

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