

Louisiana-Pacific (LPX)

\$32.99 (As of 08/27/20)

Price Target (6-12 Months): **\$38.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 07/07/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:B

Value: D

Growth: B

Momentum: A

Summary

Louisiana-Pacific's shares have outperformed the industry over the past three months. The trend is likely to continue, given strong SmartSide strand performance, increase in OSB pricing, and favorable wood fiber as well as resin costs. Operational efficiency, cost-containment efforts and resilient housing market prospects will drive growth. Moreover, solid repair and remodeling activity, and ample liquidity have been benefiting the company to tide over the pandemic. Earnings estimates for 2020 have moved north in the past 30 days, depicting analysts' optimism over its bottom-line growth potential. However, manufacturing and customer disruptions caused by the COVID-19 outbreak could materially impact its third-quarter results. Due to the market uncertainties, it didn't provide SmartSide Strand revenue projection.

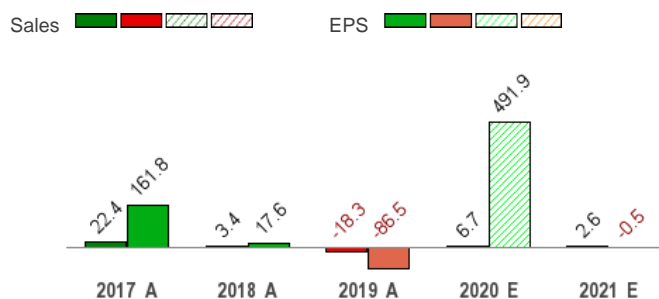
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$34.35 - \$12.97
20 Day Average Volume (sh)	1,414,430
Market Cap	\$3.7 B
YTD Price Change	11.2%
Beta	1.78
Dividend / Div Yld	\$0.58 / 1.8%
Industry	Building Products - Wood
Zacks Industry Rank	Top 2% (6 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	138.9%
Last Sales Surprise	0.9%
EPS F1 Est- 4 week change	142.4%
Expected Report Date	11/03/2020
Earnings ESP	0.0%
P/E TTM	36.7
P/E F1	15.1
PEG F1	3.0
P/S TTM	1.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					2,529 E
2020	585 A	548 A	725 E	655 E	2,465 E
2019	582 A	588 A	603 A	537 A	2,310 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$2.18 E
2020	\$0.34 A	\$0.43 A	\$1.24 E	\$0.88 E	\$2.19 E
2019	\$0.13 A	\$0.11 A	\$0.08 A	\$0.05 A	\$0.37 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 08/27/2020. The reports text is as of 08/28/2020.

Overview

Louisiana-Pacific Corporation is a leading manufacturer of sustainable, quality engineered wood building materials, structural framing products as well as exterior siding for use in residential, industrial and light commercial construction. Currently, the company operates 20 moderns, strategically located facilities in the United States and Canada, two facilities in Chile and one facility in Brazil. It also operates facilities through a joint venture. The company's products are used primarily in new home construction, repair as well as remodeling and outdoor structures.

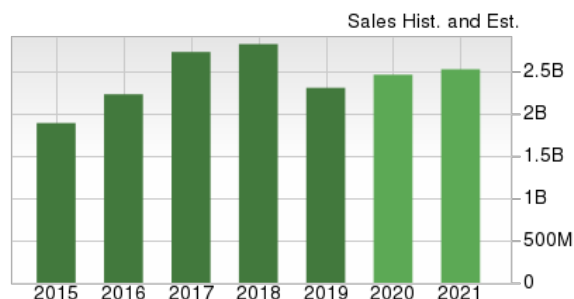
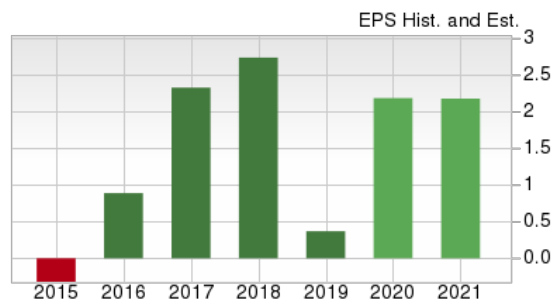
The company has four reportable segments — Siding (contributing 42% of 2019 net sales), North America Oriented Strand Board or OSB (34%), Engineered Wood Products or EWP (17%) and South America (7%). Notably, revenues from Other sources and Inter-segment sales accounted for 1% of its total net sales.

Siding segment consists of LP SmartSide trim and siding, as well as LP Outdoor Building Solutions innovative products for premium outdoor buildings.

OSB segment manufactures and distributes OSB structural panel products including LP OSB, LP TechShield radiant barrier, LP TopNotch sub-flooring, LP Legacy super tough, moisture-resistant sub-flooring, LP WeatherLogic air & water barrier and LP FlameBlock fire-rated sheathing.

EWP segment comprises LP SolidStart I-Joist (IJ), Laminated Veneer Lumber (LVL) and Laminated Strand Lumber (LSL) and other related products.

South America segment manufactures and distributes OSB and siding products in South America and certain export markets.



Reasons To Buy:

▲ **Business Transformation & Efficient Cost-Reduction Strategy:** Louisiana-Pacific is gradually transforming from a commodity producer to a more stable cash-generative business, by increasing revenues and EBITDA mix. The company remains focused on improving business by growing the Siding unit and simultaneously reducing cost. The company has been mainly focusing on three areas - increasing the efficiency of mills by improving productivity, run time and quality through OEE initiatives; applying best practices to its supply chain including procurement, logistics and working capital across \$1.1 billion of addressable spend; and optimizing infrastructure costs.

Focus on improving business by growing the Siding segment, and simultaneously reducing costs across all businesses, as well as enhancing its shareholders' return bode well

In a bid to reduce costs, Louisiana-Pacific lowered the cost structure of its facilities through Lean Six Sigma efforts, the sale or shutdown of underperforming mills and manufacturing facilities as well as investments in technology. The Lean Six Sigma efforts continue to produce excellent returns from cost-saving and efficiency projects. The company resorts to a strategy of curtailing production at selected facilities to meet customer demand and optimize portfolio as well as margins.

For second-quarter 2020, the Siding business generated the second highest quarterly revenues in its history and witnessed lowest cost of production in the last three years. Also, the OSB unit delivered its best quarterly unit production costs since 2016, signaling excellent efficiency and cost control.

▲ **Enough Liquidity:** During the second quarter, Louisiana-Pacific repaid the \$350 million of revolving credit drawn in March and expanded the existing \$350-million credit facility to \$550 million. Evidently, its cash and cash equivalents reduced to \$259 million from \$488 million reported at March-end.

Nonetheless, due to the repayment its total long-term debt (including non-current operating lease liabilities) reduced significantly to \$381 million sequentially. Total debt to capital also decreased to 27.6% at second quarter-end from 42.7% at March-end. Encouragingly, the company does not have any future obligations under the \$550-million revolving credit facility and 4.875% Senior Notes until May 1, 2023.

Louisiana-Pacific continues to reduce 2020 capital expenditure by 50% to roughly \$70 million, made during its first-quarter conference call.

▲ **Enhancing Shareholders' Return:** Louisiana-Pacific has been consistently enhancing shareholders' return through share repurchases and dividends. In first-half 2020, the company paid \$33 million worth of dividends and \$5 million to repurchase stocks. In order to preserve cash amid the coronavirus-induced crisis situation, it has reduced spending on capital projects and suspended share buybacks. Although its authorization to buy back \$200 million worth of shares remains in effect, Louisiana-Pacific has no plans to buy back shares in 2020 due to uncertain market conditions. As of now, the company remains committed to enhance shareholders' value through dividend payments.

The company has committed to return over time to its shareholders at least 50% of cash flow from operations in excess of capital expenditures in order to sustain core business, as well as grow Siding and value-added OSB. In 2019, the company completed \$600 million accelerated share repurchase and paid \$65 million as dividends.

▲ **Focus on Siding Business Bodes Well:** The company has been making efforts to increase penetration of Siding products in repair/remodel and roll out SmartSide products. It exited the fiber product line to focus more on higher-margin SmartSide strand products. Also, it launched ExpertFinish within the Prefinish product line. The company has been witnessing higher-than-expected demand for Smooth SmartSide and ExpertFinish.

The company remains committed to grow strand Siding revenues in 2020 and beyond. Notably, the Siding unit, which is no longer producing OSB, generated 2% higher revenues during 2019. In fact, SmartSide Strand revenues grew 10% during 2019. Although the segment's revenues declined in the past six months mainly owing to a decrease in SmartSide fiber sales, SmartSide Strand revenues grew 3% year over year.

It intends to continue investment in selling and marketing of the said business in 2020 and beyond.

▲ **Strategic Investments:** Louisiana-Pacific's business banks on acquisitions, business combinations and divestures of low-profitable businesses. In sync with the strategy, in June 2020, it completed the divestiture of the Nova Scotia, Canada-based East River facility to Maibec, Inc. for \$16 million. Maibec also took charge of the assets and brand rights of CanExel — the fiber-based siding product manufactured in the East River facility. Moreover, LP's Siding business will now focus exclusively on meeting higher customer demand for its strand-based siding products.

On Oct 8, 2019, the company acquired the prefinishing assets at a Granite City, Ill., prefinish facility, which was owned by BlueLinX. Again, on Jun 3, 2019, it acquired a Green Bay, WI-based prefinished siding company, Prefinished Staining Product Incorporated ("PSPI"). These buyouts enabled the company to boost the Siding business and transform itself into a leading building solution provider. The acquisitions allowed it to utilize PSPI's existing facilities, capability and expertise to enter the market, and drive growth of the Siding business as well as LP SmartSide brand.

Moreover, improving housing market prospects are resulting in higher demand for both OSB, as well as repair and remodel activity.

Risks

- **Coronavirus-Related Disruptions:** Due to uncertainties surrounding the impact of coronavirus, governmental responses and subsequent economic recovery, LP suspends its SmartSide Strand sales growth guidance for 2020. The company believes manufacturing and customer disruptions caused by the COVID-19 outbreak could materially impact third-quarter results.
- **Lower Contribution From EWP Segment:** Louisiana-Pacific's EWP segment sales, which comprised nearly 14% of total second-quarter sales, declined 26% year over year during the quarter. Adjusted EBITDA also fell a whopping 70% from the prior-year period, resulting in the contraction of margin by 500 basis points. The decline was primarily attributable to difficult year-over-year comparison in respect to volumes, temporary shutdown of the I-Joist manufacturing unit in Quebec and reduced demand for EWP products. Moreover, significant increase in lumber prices recently is likely to inflate costs of I-Joist and LVL, which may further put pressure on margin.
- **Dependence on Housing Market:** Demand for the company's products has a strong relationship to the level of new home construction activity in North America, which historically has been characterized by significant cyclicity. The housing industry is cyclical and is affected by consumer confidence levels, prevailing economic conditions and interest rates. The federal government's actions related to economic stimulus, taxation and borrowing limits can affect consumer confidence and spending levels, which in turn can hurt the economy and the housing market. The company believes that nearly 40% of SmartSide revenues come from single-family housing.
- **Tariff-Related Woes & Higher Expenses:** Higher costs and expenses have been a concern for all wood industry players. Wood fiber is the primary raw material used by Louisiana-Pacific, while the primary source of wood fiber is timber. The cost of different varieties of wood fiber is subject to volatility owing to governmental, economic or industry conditions. The imposition of tariff on imported lumber raises concern.

Along with wood fiber, the company uses a significant quantity of various resins in the manufacturing processes. Resin product costs are influenced by changes in the prices or availability of raw materials used to produce resins, primarily petroleum products as well as demand for and availability of resin products.

Apart from wood fiber costs, increased marketing investments associated with accelerating repair and remodel channel penetration, along with new product introductions have been denting its performance over the last few quarters. Selling, general and administrative expenses were 10% up in 2019 due to increased investments in sales and marketing to drive siding growth.

- **Product Concentrated Around OSB Segment:** The company has a high degree of product concentration in OSB. OSB accounted for about 66%, 54%, 54% and 51% of its North American sales in 2019, 2018, 2017 and 2016 respectively. Louisiana-Pacific expects OSB sales to continue to account for a substantial portion of its revenues and profits in the future. Increased concentration around one segment makes the company susceptible to commodity pricing and price volatility.

Although OSB prices have increased recently, pricing pressure under the OSB segment has been impacting the company's overall operating results since 2018. The headwind continued in 2019 as well. In 2019, its adjusted earnings declined more than 73% from the year-ago level due to lower OSB pricing across North American operations, and higher costs and expenses. In fact, the segment's adjusted EBITDA was just \$10 million compared with \$425 million reported a year ago. The decreases are primarily related to \$407 million of reduction in OSB prices and a 17% decrease in commodity shipments. The effect is expected to continue in near future as well. Particularly in the third quarter of 2019, average selling price for OSB (lowest in the past four years) was down 35% and volume declined 14% year over year.

Importantly, management has removed all commodity OSB production from its Siding mills and reduced production at the Peace Valley facility in British Columbia.

Last Earnings Report

Louisiana-Pacific Q2 Earnings Beat Estimates

Louisiana-Pacific Corporation reported impressive results for second-quarter 2020, wherein both the top and bottom lines surpassed the Zacks Consensus Estimate. Its adjusted earnings surged nearly 300% year over year despite lower revenues. The upside was backed by strong SmartSide strand revenues, increase in OSB pricing, and favorable wood fiber as well as resin costs. Operational efficiency and cost-containment efforts also supported the growth.

The company continues to suspend SmartSide Strand revenue growth projection for 2020 but expects high single-digit improvement for the third quarter. Also, it still expects 2020 capital expenditure to be \$70 million.

Notably, the company announced the CanExel sale completion for \$14 million in cash.

Detailed Discussion

Louisiana-Pacific reported second-quarter adjusted earnings of 43 cents per share, which beat the Zacks Consensus Estimate of 18 cents by 138.9%. The metric also increased a whopping 290.9% from the year-ago reported figure of 11 cents per share.

Net sales of \$548 million topped the consensus estimate of \$543 million by 0.9% but decreased 6.8% from the year-ago period. Softness across the segments, barring OSB, impacted the results.

Single-family housing starts declined 12.8% year over year. Multi-family starts also fell 28.8% from the prior year.

Segmental Analysis

Siding: The segment's sales of \$220 million were down 5% from the prior-year period. The decline was due to a decrease in SmartSide fiber sales, partially offset by a 3% increase in SmartSide strand volume.

Adjusted EBITDA improved 13% and margin rose 400 basis points (bps) from the prior-year quarter to \$51 million and 23%, respectively. The upside was backed by a rise in SmartSide strand revenues, increased production at the Dawson Creek facility, and sourcing and operational efficiency savings. This was partially offset by a decrease in SmartSide fiber sales.

OSB: Sales in the segment increased 3% year over year to \$204 million. The company's adjusted EBITDA margin also jumped significantly to 23% from negative 2% reported a year ago. Increased OSB prices, lower raw material costs and cost-containment efforts helped it gain during the quarter.

EWP: Segment's sales declined 26% year over year to \$79 million. Adjusted EBITDA margin also contracted 500 bps year over year to 4%. Difficult year-over-year comparison, temporary shutdown of the I-Joist manufacturing unit in Quebec, and reduced demand for EWP products hurt the segment.

South America: Sales of \$38 million decreased 5% but adjusted EBITDA margin of 29% expanded 600 bps from the year-ago quarter due to unfavorable foreign currency fluctuations.

Operating Highlights

Gross margin expanded 810 bps year over year to 21.4%. Selling, general and administrative expenses — as a percentage of revenues — contracted 80 bps.

Adjusted EBITDA of \$97 million was up 83% from the prior-year figure of \$53 million. Adjusted EBITDA margin also rose a whopping 670 bps to 17.7%, driven by higher OSB prices.

Financials

As of Jun 30, 2020, Louisiana-Pacific had cash and cash equivalents of \$259 million compared with \$181 million at 2019-end. The company repaid the \$350 million of revolving credit drawn in March. Also, it expanded the existing \$350-million credit facility to \$550 million.

Long-term debt was \$348 million, flat with 2019-end. For the second quarter, net cash provided by operations was \$129 million, significantly up from \$54 million reported in the year-ago period.

Quarter Ending 06/2020

Report Date	Aug 04, 2020
Sales Surprise	0.92%
EPS Surprise	138.89%
Quarterly EPS	0.43
Annual EPS (TTM)	0.90

Valuation

Louisiana-Pacific's shares are up 11.2% in the year-to-date period and 39.4% over the trailing 12-month period. Stocks in the Zacks sub-industry is and the Zacks Construction sector is up 14.3% and 7.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 32.3% and 20.3%, respectively.

The S&P 500 index is up 8.2% in the year-to-date period and 19.5% in the past year.

The stock is currently trading at 15.12X forward 12-month earnings, which compares to 29.19X for the Zacks sub-industry, 18.4X for the Zacks sector and 23.37X for the S&P 500 index.

Over the past five years, the stock has traded as high as 146.9X and as low as 7.33X, with a 5-year median of 14.92X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$38 price target reflects 17.21X forward 12-month earnings.

The table below shows summary valuation data for LPX

Valuation Multiples - LPX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	15.12	29.19	18.4	23.37
	5-Year High	146.9	41.06	19.19	23.37
	5-Year Low	7.33	16.74	10.74	15.25
	5-Year Median	14.92	23.65	15.86	17.58
P/S F12M	Current	1.48	3.31	2.11	3.82
	5-Year High	1.71	3.5	2.13	3.82
	5-Year Low	0.59	1.45	1.18	2.53
	5-Year Median	1.22	2.716	1.63	3.05
EV/EBITDA TTM	Current	16.01	25.91	19.41	13.27
	5-Year High	81.85	25.91	21.27	13.27
	5-Year Low	3.05	10.02	12.44	8.25
	5-Year Median	9.59	16.66	17.89	10.92

As of 08/27/2020

Industry Analysis Zacks Industry Rank: Top 2% (6 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
BlueLinx Holdings Inc. (BXC)	Outperform	2
FloorDecor Holdings, Inc. (FND)	Outperform	1
JELDWEN Holding, Inc. (JELD)	Outperform	2
Norbord Inc. (OSB)	Outperform	1
Potlatch Corporation (PCH)	Outperform	2
Rayonier Inc. (RYN)	Outperform	3
Universal Forest Products, Inc. (UFPI)	Outperform	2
Weyerhaeuser Company (WY)	Neutral	2

Industry Comparison Industry: Building Products - Wood				Industry Peers		
	LPX	X Industry	S&P 500	BXC	FND	OSB
Zacks Recommendation (Long Term)	Outperform	-	-	Outperform	Outperform	Outperform
Zacks Rank (Short Term)	1	-	-	2	1	1
VGM Score	B	-	-	A	F	C
Market Cap	3.71 B	3.00 B	23.67 B	196.89 M	7.49 B	2.91 B
# of Analysts	4	3	14	1	11	3
Dividend Yield	1.76%	0.00%	1.64%	0.00%	0.00%	0.41%
Value Score	D	-	-	A	F	D
Cash/Price	0.07	0.04	0.07	0.06	0.02	0.01
EV/EBITDA	35.11	17.94	13.33	14.05	36.28	31.67
PEG Ratio	3.06	1.21	3.05	NA	2.74	0.25
Price/Book (P/B)	3.70	2.76	3.18	NA	8.81	4.24
Price/Cash Flow (P/CF)	23.06	19.78	12.81	10.87	37.80	27.72
P/E (F1)	15.29	21.70	21.68	29.73	62.92	9.22
Price/Sales (P/S)	1.63	1.68	2.50	0.07	3.63	1.72
Earnings Yield	6.64%	4.14%	4.43%	3.36%	1.59%	10.84%
Debt/Equity	0.38	0.73	0.74	-37.74	1.30	0.96
Cash Flow (\$/share)	1.43	1.90	6.94	1.92	1.92	1.30
Growth Score	B	-	-	A	D	C
Hist. EPS Growth (3-5 yrs)	0.52%	2.84%	10.41%	NA	18.11%	-38.15%
Proj. EPS Growth (F1/F0)	491.22%	49.59%	-4.94%	156.00%	0.08%	1,156.76%
Curr. Cash Flow Growth	-67.52%	-27.92%	5.22%	-284.67%	30.45%	-80.52%
Hist. Cash Flow Growth (3-5 yrs)	32.59%	21.03%	8.50%	92.45%	48.52%	18.17%
Current Ratio	3.15	2.11	1.35	3.09	1.56	1.91
Debt/Capital	28.16%	43.44%	43.86%	NA	56.48%	48.92%
Net Margin	0.75%	2.00%	10.25%	-0.43%	7.04%	0.53%
Return on Equity	9.74%	9.74%	14.66%	NA	13.31%	4.64%
Sales/Assets	1.16	1.12	0.50	2.59	0.86	0.91
Proj. Sales Growth (F1/F0)	6.71%	4.79%	-1.43%	1.51%	11.06%	24.41%
Momentum Score	A	-	-	D	D	B
Daily Price Chg	0.61%	0.17%	0.43%	1.41%	-1.96%	0.33%
1 Week Price Chg	4.72%	4.04%	-1.45%	4.64%	4.47%	6.76%
4 Week Price Chg	3.45%	4.21%	3.75%	54.38%	3.46%	11.16%
12 Week Price Chg	28.97%	29.35%	3.95%	159.15%	31.42%	65.72%
52 Week Price Chg	39.38%	43.64%	2.75%	-26.31%	49.95%	47.91%
20 Day Average Volume	1,414,430	370,053	1,887,168	296,199	1,407,687	265,743
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	142.38%	37.95%	0.79%	154.69%	39.74%	217.89%
(F1) EPS Est 12 week change	273.93%	127.64%	3.43%	151.47%	38.66%	1,888.14%
(Q1) EPS Est Mthly Chg	148.00%	66.56%	0.00%	725.00%	154.67%	178.95%

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	D
Growth Score	B
Momentum Score	A
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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