

Marriott International (MAR)

\$97.01 (As of 08/11/20)

Price Target (6-12 Months): **\$82.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 07/13/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: C

Summary

Shares of Marriott have underperformed the industry so far this year. The company reported second-quarter 2020 results, wherein earnings missed the Zacks Consensus Estimate but revenues surpassed the same. However, both the metrics declined sharply year over year. The dismal performance can primarily be attributed to the coronavirus pandemic. RevPAR and occupancy rates have declined significantly. Although the company is witnessing steady recovery in the U.S. and China markets, RevPAR and occupancy rate are still well below the pre-pandemic era. Owing to the uncertainty of the crisis, the company has not only suspended dividend payouts and share repurchase program but has also withdrawn its 2020 guidance. Notably, earnings estimates for 2020 have moved down over the past 30 days, depicting analyst concern regarding the stock's growth potential.

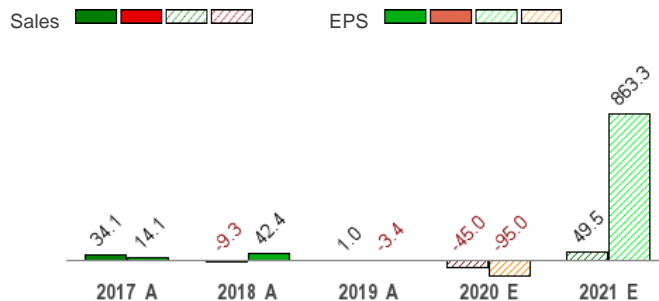
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$153.39 - \$46.56
20 Day Average Volume (sh)	3,269,211
Market Cap	\$31.5 B
YTD Price Change	-35.9%
Beta	1.56
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Hotels and Motels
Zacks Industry Rank	Bottom 4% (243 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-45.5%
Last Sales Surprise	5.2%
EPS F1 Est- 4 week change	-51.6%
Expected Report Date	11/02/2020
Earnings ESP	44.0%
P/E TTM	36.5
P/E F1	323.4
PEG F1	43.2
P/S TTM	1.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	4,108 E	3,902 E	4,146 E	4,450 E	17,247 E
2020	4,681 A	1,464 A	2,223 E	3,336 E	11,540 E
2019	5,012 A	5,305 A	5,284 A	5,371 A	20,972 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.55 E	\$0.61 E	\$0.80 E	\$0.79 E	\$2.89 E
2020	\$0.26 A	-\$0.64 A	\$0.08 E	\$0.46 E	\$0.30 E
2019	\$1.41 A	\$1.56 A	\$1.47 A	\$1.57 A	\$6.00 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 08/11/2020. The reports text is as of 08/12/2020.

Overview

Marriott International Inc. is a leading worldwide hospitality company focused on lodging management and franchising, after the spin-off of its timeshare business into a publicly traded company in Nov 2011.

During the second quarter of 2020, the company added 75 new properties (or 11,407 rooms) to its worldwide lodging portfolio. This also includes 2,000 rooms converted from competitor brands and approximately 4,700 rooms in international markets. However, 11 properties (or 2,669 rooms) exited the system during the quarter.

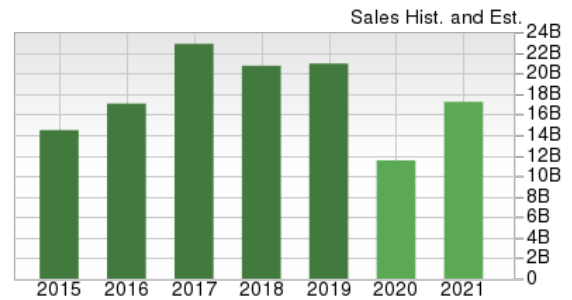
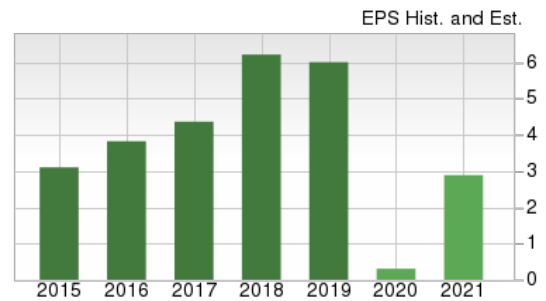
As of Jun 30, 2020, the company operated, franchised and acted as a licensor of hotels as well as timeshare properties to more than 7,400 (nearly 1,401,000 rooms) properties across 135 countries and territories, under 30 brand names.

The company has grouped its brand portfolio into three groups:

Luxury: The company's classic luxury hotel brands include JW Marriott, The Ritz-Carlton, and St. Regis. Meanwhile, Marriott's distinctive luxury hotel brands comprise W Hotels, The Luxury Collection, EDITION, and Bulgari.

Premium: The company's classic premium hotel brands include Marriott Hotels, Sheraton, Delta Hotels, Marriott Executive Apartments, and Marriott Vacation Club. Moreover, its distinctive premium hotel brands comprise Westin, Renaissance, Le Méridien, Autograph Collection, Gaylord Hotels, Tribute Portfolio and Design Hotels.

Select: The company's classic select hotel brand include Courtyard, Residence Inn, Fairfield by Marriott, SpringHill Suites, Four Points, TownePlace Suites, and Protea Hotels. Meanwhile, Marriott's distinctive select hotel brands comprise Aloft, AC Hotels by Marriott, Element, and Moxy.



Reasons To Sell:

▼ **Coronavirus Impact:** The Hotel and Motels industry is currently grappling with the coronavirus pandemic and Marriott isn't immune to the trend. Owing to the same, the company has withdrawn its 2020 guidance. It has also suspended its share repurchase and dividend payments until further notice. Markedly, the pandemic is likely to hurt the company's results in 2020. However, the company is unable to estimate any financial impact of coronavirus at the moment as the duration and extent of the outbreak cannot be ascertained.

▼ **RevPAR & Occupancy Rates Decline Sharply:** With COVID-19 outbreak intensifying globally in March, the company began to experience significant decline in demand, resulting in dismal performance of revenue per available room (RevPAR) and occupancy. In second-quarter 2020, RevPAR for worldwide comparable system-wide properties fell 84.4% in constant dollars (down 84.6% in actual dollars) on account of 57.4% and 35.3% decline in occupancy and average daily rate (ADR), respectively. Comparable system-wide RevPAR (in constant dollar) was down 83.6% in North America and 86.7% outside North America. Notably, low occupancy levels and steep RevPAR declines were witnessed in Europe, Middle East and Africa region (or EMEA) as well as in the Caribbean and Latin America region (or CALA).

▼ **Lingering Uncertainty in Various International Markets & RevPAR Growth:** Despite immense growth potential, a sluggish economy and oversupply in Brazil are weighing on the Latin American region. In the Middle East, sanctions on Qatar have reduced travel into and out of that country. Meanwhile, political unrest, lower government spending, new hotel supply and a tough oil market continue to hurt tourism in other Middle East markets and the company expects weak RevPAR trends in the region to continue in the coming quarters as well. Also, the slowdown in the Chinese economy is hurting discretionary spending as well as travel.

Meanwhile, in the domestic market, the company is facing competition in New York due to a continuous increase in supply of hotels, which is limiting room rents, thereby hurting RevPAR in the region. On the whole, though leisure demand remains strong, cautious corporate, group and transient demand raise concern.

▼ **Fluctuation in Exchange Rates:** Marriott has significant international presence and is therefore highly vulnerable to fluctuations in exchange rates. Notably, the company has been witnessing fewer international guests at its U.S. hotels, given the stronger dollar. Moreover, the company is also bearing the brunt of Venezuelan currency devaluation. Going forward, such volatility in exchange rates would continue to hurt the results of the company as it has been doing over the past few quarters.

The coronavirus pandemic, sluggish economy and high competition are likely to hurt company's performance.

Risks

- **Solid Brand Position to Drive Long-Term Growth:** Marriott is a leading company in the luxury and lifestyle space, which includes brands that own more than 7,400 properties in 135 countries and territories. Marriott's extensive portfolio and a strong brand position allow it to charge a premium room rate in the highly competitive lodging industry. Given its property locations, we believe that the company is well-poised to benefit from the increasing market demand on the back of stepped-up business as well as leisure traveling in major North American and international locations.
- **Efforts to Drive Growth:** With more than 143 million members globally, the company's loyalty program Marriott Bonvoy plays a supporting hand in its marketing strategies. Notably, the company is entitled to engage with customers through email campaigns and promotional offers such as point accelerators on its co-brand credit cards for gas, dining and groceries as well as gift card discounts. Additional benefits for elite members were also provided.
- **Strong Expansion Plans:** Marriott is consistently trying to expand presence worldwide and capitalize on the demand for hotels in international markets. Moving ahead, the company plans to significantly expand global portfolio of luxury and lifestyle brands. In April 2019, the company opened its 7000th property — the 27 storey St. Regis Hong Kong. At the end of second-quarter 2020, Marriott's development pipeline had nearly 3,000 hotels, with approximately 510,000 rooms. Further, nearly 230,000 rooms were under construction. The hotel company is also trying to strengthen presence outside the United States, especially in Asia, Latin America, Middle East and Africa. Meanwhile, the company's European pipeline has grown consistently in the recent past and is expected to continue going forward. In fact, the company aims to expand its lead in the luxury and full-service segments in the region, have the largest portfolio in the upscale division and also win over millennials in the affordable lifestyle group by 2020. Marriott is very optimistic about growth opportunity in India. Notably, the demand for hotels in these markets is greater than in the domestic space as the rising disposable income, primarily among the middle classes, is boosting tourism. Within Asia-Pacific, China promises immense growth potential, despite the economic slowdown. Meanwhile, as incomes rise, China's middle class is looking for higher quality products and elevated travel experiences. Notably, China is the largest source market for outbound travel now. In fact, Chinese outbound travel is set to boom further with 700 million expected trips over the next five years.
- **Signs of Improvement in China Mainland:** As the economy is opening up, signs of improvement can be noticed in Greater China. With majority of the virus contained, domestic travel restrictions are being lifted, leading to an improvement in daily number of passenger flights. Additionally, businesses are also picking up. China represents 9% of Marriott's rooms, out of which 90% are being currently actively managed. Notably, the company is witnessing improvement in occupancy and new bookings. During second-quarter 2020, the company announced that occupancy levels in Greater China are currently 60%, up from the lows of under 10% in mid-February. In July, RevPAR was down 34% year over year, compared with a year-over-year decline of 85% in February.
- **Strategic Acquisitions to Boost Growth:** The company continues to rely on acquisitions in order to expand its footprint globally. In late 2016, it completed the acquisition of Starwood and became the world's largest hotel company. With the completion of this acquisition, Marriott's distribution has more than doubled in Asia and the Middle East & Africa combined. Also, Marriott's move to buy Starwood shows that the hospitality industry thrives on such blockbuster deals, which are critical to their success at a time when online booking is becoming important in the lodging business.

The company is also ramping up the expansion of its brands acquired via takeover. These brands include Sheraton, W and Aloft. To this end, management is working to increase accountability, quality assurance and capital investments of the Sheraton brand while enabling Marriott's systems and programs to drive the top line and reduce costs. Also, with the Protea Hospitality Group buyout in 2014, Marriott became the largest hotel company in Africa and has nearly doubled its presence in the Middle East and African region. This was followed by the acquisition of Delta Hotels and Resorts brand in 2015. These acquisitions strategies are expected to help the company carry on with its portfolio expansion globally. Interestingly, even with 30 brands under the portfolio, the company has not ruled out further M&A activities.

On Dec 9, 2019, the company completed the acquisition of Elegant Hotels Group plc for \$128 million in cash and assumed Elegant's net debt outstanding of \$63 million, which we subsequently repaid in January 2020. As a result of this transaction, the company added seven hotels and a beachfront restaurant on the island of Barbados to its Caribbean and Latin America-owned and leased portfolio. It also acquired the W New York - Union Square — a North American Full-Service property — for \$206 million.

- **Sufficient Liquidity to Manage Current Scenario:** Of late, Marriott has bolstered its liquidity to manage the coronavirus pandemic. In May, the company raised \$920 million in additional liquidity through amendments to its co-brand credit card agreements with JPMorgan Chase & Co. and American Express. In June 2020, the company completed a cash tender offer and retired \$853 million aggregate principal amount of Senior Notes maturing in 2022. Nonetheless, the company has increased its net liquidity to approximately \$4.4 billion as of Jun 30. Although total debt at the end of Jun 30, 2020, was \$11.8 billion, it is confident that with the amount of liquidity it holds, it can survive the pandemic for some time.
- **Embracing Social Media and Smartphones to Build Loyalty:** Digital innovations and social media are starting to play an increasingly important role in hotel bookings. Social media enhances the brand's prospects by connecting directly with guests, which in turn can lead to increased loyalty and market share. The Marriott mobile app for tablets and smartphones helps guests to manage their bookings, access interactive maps/GPS as well as reward programs. Moreover, Marriott recently re-imagined its Marriott Mobile app to meet the needs of the modern traveler. Guests will now be able to enjoy new and extended digital features, customized travel content, easier one-button navigation and a new swipe-able discovery home screen. In 2019, the company earned \$410 million in credit card fees.

Last Earnings Report

Marriott Q2 Earnings Miss Estimates, Revenues Surpass

Marriott reported second-quarter 2020 results, with earnings missing the Zacks Consensus Estimate and revenues surpassing the same. However, the top and the bottom line declined on a year-over-year basis.

In the quarter under review, Marriott's adjusted loss per share came in at 64 cents, wider than the Zacks Consensus Estimate of a loss of 44 cents. In the prior-year quarter, the company reported adjusted earnings of \$1.56 per share. Adjusted loss in the quarter included impairment charges and bad debt expense of 19 cents and 17 cents per share, respectively, thanks to the coronavirus pandemic.

Quarterly revenues of \$1,464 million beat the consensus mark of \$1,392 million by 5.2%. However, the top line declined 72% on a year-over-year basis. Base management and Franchise fee came in at \$40 million and \$182 million, down 87% and 65% year over year, respectively.

Quarter Ending 06/2020

Report Date	Aug 10, 2020
Sales Surprise	5.16%
EPS Surprise	-45.45%
Quarterly EPS	-0.64
Annual EPS (TTM)	2.66

RevPAR & Margins

In the quarter under review, revenue per available room (RevPAR) for worldwide comparable system-wide properties fell 84.4% in constant dollars (down 84.6% in actual dollars) due to 57.4% and 35.3% decline in occupancy and average daily rate (ADR), respectively. These metrics were impacted by the coronavirus pandemic.

Comparable system-wide RevPAR in North America fell 83.6% in constant dollars (down 83.6% in actual dollars) thanks to 34.7% decline in ADR and 58.4% fall in occupancy.

On a constant-dollar basis, international comparable system-wide RevPAR slumped 86.7% (down 87.1% in actual dollars) due to a 54.9% and 37.7% decline in occupancy and ADR, respectively.

Total expenses fell 67% year over year to \$1,618 million, primarily due to decline in Reimbursed expenses.

Adjusted earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to \$61 million, down 94% year over year.

Balance sheet

At the end of the second quarter, Marriott's total debt was reported at \$11.8 billion, compared with \$10.9 billion in Dec 2019.

During the quarter, the company's cash balances totaled \$2.3 billion compared with \$225 million in Dec 2019.

Owing to uncertainty revolving around the crisis, the company temporarily suspended its share repurchase programs and dividend payouts.

Unit Developments

At the end of the second-quarter 2020, Marriott's development pipeline totaled nearly 3,000 hotels, with approximately 510,000 rooms. Further, nearly 230,000 rooms were under construction.

Coronavirus Impact

The coronavirus outbreak will hurt the company's results in 2020. However, the company is unable to estimate any financial impact of the coronavirus outbreak at the moment as the duration and extent of the outbreak cannot be ascertained.

Valuation

Marriott's shares are down 36% year-to-date and 26.8% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down by 27.6% and 4.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down by 16.1%, but the sector is up by 4.6%.

The S&P 500 index is up 4.2% in the year-to-date period and 15% in the past year.

The stock is currently trading at 19.96X trailing 12-month earnings, which compares to 53.87X for the Zacks sub-industry, 34.56X for the Zacks sector and 23.76X for the S&P 500 index.

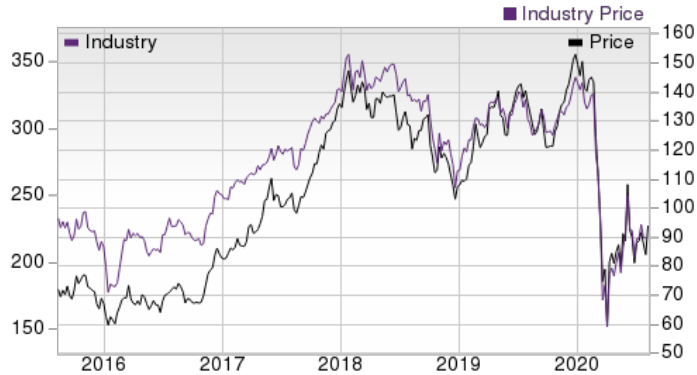
Over the past five years, the stock has traded as high as 33.94X and as low as 10.62x, with a 5-year median of 22.72X. Our Underperform recommendation indicates that the stock will perform worse-than the market. Our \$82 price target reflects 16.87X trailing 12-month earnings.

The table below shows summary valuation data for MAR.

Valuation Multiples - MAR					
		Stock	Sub-Industry	Sector	S&P 500
P/E TTM	Current	19.96	53.87	34.56	23.76
	5-Year High	33.94	53.87	34.56	23.76
	5-Year Low	10.62	17.11	19.58	15.98
	5-Year Median	22.72	23.64	24.43	19.26
P/S F12M	Current	2.09	2.33	2.39	3.67
	5-Year High	2.38	2.33	2.95	3.67
	5-Year Low	0.94	1.13	1.68	2.53
	5-Year Median	1.8	1.65	2.5	3.05
EV/EBITDA TTM	Current	16.83	19.48	11.11	12.66
	5-Year High	26.57	22.86	17.86	12.84
	5-Year Low	11.11	9.3	8.32	8.24
	5-Year Median	17.95	14.62	12.29	10.9

As of 08/11/2020

Industry Analysis Zacks Industry Rank: Bottom 4% (243 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Hyatt Hotels Corporation (H)	Neutral	4
Extended Stay America, Inc. (STAY)	Neutral	3
Wyndham HotelsResorts Inc. (WH)	Neutral	3
Choice Hotels International, Inc. (CHH)	Underperform	4
Hilton Grand Vacations Inc. (HGV)	Underperform	4
Hilton Worldwide Holdings Inc. (HLT)	Underperform	4
Marriot Vacations Worldwide Corporation (VAC)	Underperform	4
WYNDHAM DESTINATIONS, INC. (WYND)	Underperform	4

Industry Comparison Industry: Hotels And Motels				Industry Peers		
	MAR	X Industry	S&P 500	H	HLT	VAC
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Underperform	Underperform
Zacks Rank (Short Term)	4	-	-	4	4	4
VGM Score	D	-	-	F	C	C
Market Cap	31.46 B	3.98 B	23.61 B	5.58 B	24.13 B	3.98 B
# of Analysts	9	6	14	8	7	4
Dividend Yield	0.00%	0.00%	1.69%	0.00%	0.00%	0.00%
Value Score	D	-	-	C	D	B
Cash/Price	0.06	0.15	0.07	0.29	0.15	0.24
EV/EBITDA	16.97	13.57	13.32	4.62	15.58	14.77
PEG Ratio	43.23	18.05	2.95	NA	21.43	NA
Price/Book (P/B)	NA	1.85	3.22	1.60	NA	1.46
Price/Cash Flow (P/CF)	13.13	11.98	12.79	8.78	16.15	8.02
P/E (F1)	323.37	74.04	22.02	NA	204.41	180.22
Price/Sales (P/S)	1.87	1.71	2.57	1.50	3.33	1.05
Earnings Yield	0.31%	0.15%	4.29%	-7.44%	0.49%	0.56%
Debt/Equity	-138.77	0.82	0.77	0.82	-8.80	1.68
Cash Flow (\$/share)	7.39	3.17	6.94	6.29	5.39	12.08
Growth Score	D	-	-	F	B	C
Hist. EPS Growth (3-5 yrs)	18.59%	13.62%	10.41%	13.62%	8.52%	14.83%
Proj. EPS Growth (F1/F0)	-94.93%	-93.15%	-6.51%	-300.61%	-89.08%	-93.12%
Curr. Cash Flow Growth	-2.82%	6.05%	5.22%	5.97%	24.59%	82.73%
Hist. Cash Flow Growth (3-5 yrs)	21.40%	4.04%	8.55%	2.61%	2.71%	32.34%
Current Ratio	0.67	1.98	1.34	2.76	1.98	3.65
Debt/Capital	93.91%	59.18%	44.59%	45.13%	NA	62.67%
Net Margin	2.76%	0.42%	10.13%	7.45%	0.70%	-2.94%
Return on Equity	238.84%	-0.62%	14.59%	-3.48%	-86.95%	6.53%
Sales/Assets	0.66	0.41	0.51	0.45	0.46	0.41
Proj. Sales Growth (F1/F0)	-44.97%	-35.65%	-1.45%	-53.36%	-49.16%	-32.80%
Momentum Score	C	-	-	F	F	F
Daily Price Chg	-0.12%	0.04%	-0.17%	1.62%	0.95%	1.83%
1 Week Price Chg	11.88%	6.42%	2.30%	6.52%	11.53%	7.31%
4 Week Price Chg	11.35%	11.35%	6.41%	12.09%	18.38%	14.09%
12 Week Price Chg	6.99%	11.55%	15.42%	2.66%	15.58%	10.71%
52 Week Price Chg	-26.74%	-16.17%	2.88%	-26.92%	-8.65%	8.88%
20 Day Average Volume	3,269,211	334,568	2,007,486	867,771	2,905,803	368,903
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-11.11%	-39.92%	0.00%
(F1) EPS Est 4 week change	-51.63%	-37.28%	1.84%	-35.50%	-55.32%	-83.10%
(F1) EPS Est 12 week change	-71.15%	-53.99%	2.40%	-39.53%	-53.80%	-80.93%
(Q1) EPS Est Mthly Chg	-62.73%	-24.07%	0.72%	-36.19%	-180.65%	-195.91%

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	D
Momentum Score	C
VGM Score	D

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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