

Middleby Corporation (MIDD)

\$94.21 (As of 08/19/20)

Price Target (6-12 Months): **\$99.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/16/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: D

Momentum: A

Summary

Middleby is poised to benefit from the efforts to broaden the product portfolio, cost-saving actions in the wake of the pandemic, supply-chain initiatives and healthy liquidity position. Synergistic gains from acquired assets might be beneficial in the quarters ahead. Notably, acquired assets boosted its sales by 2.3% in the second quarter of 2020. Going forward, improving orders and solid backlog level are likely to benefit its Residential Kitchen Equipment Group and Food Processing Equipment Group segments. However, low demand environment, stemming from the pandemic, might hurt its Commercial Foodservice Equipment segment. High debt levels, and rising costs of sales and expenses have been concerning for Middleby. Foreign exchange headwinds might also affect its performance. In the past six months, its shares have underperformed the industry.

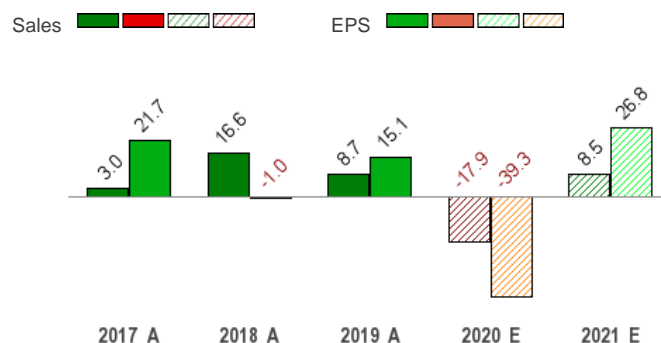
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$128.48 - \$41.73
20 Day Average Volume (sh)	840,318
Market Cap	\$5.2 B
YTD Price Change	-14.0%
Beta	1.62
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Manufacturing - General Industrial
Zacks Industry Rank	Bottom 33% (170 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	34.2%
Last Sales Surprise	4.6%
EPS F1 Est- 4 week change	6.1%
Expected Report Date	11/04/2020
Earnings ESP	0.0%
P/E TTM	16.4
P/E F1	22.1
PEG F1	NA
P/S TTM	2.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	663 E	586 E	695 E	768 E	2,634 E
2020	677 A	472 A	586 E	692 E	2,428 E
2019	687 A	761 A	724 A	788 A	2,959 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.28 E	\$1.14 E	\$1.47 E	\$1.76 E	\$5.40 E
2020	\$1.46 A	\$0.55 A	\$0.95 E	\$1.35 E	\$4.26 E
2019	\$1.38 A	\$1.70 A	\$1.72 A	\$2.00 A	\$7.02 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 08/19/2020. The reports text is as of 08/20/2020.

Overview

Elgin, IL-based The Middleby Corporation (MIDD) provides cooking, warming, food preparation and packaging equipment to commercial, industrial processing and residential markets. Formerly known as Oven Company, it was acquired by TMC Industries Ltd. in 1983. Post the acquisition, the company's name was changed to Middleby Corporation in 1985.

The company has manufacturing and distribution operations in Europe, Asia and Latin America.

The company operates in three main segments.

- **Commercial Foodservice Equipment Group** (56.7% of total revenues in second-quarter 2020) manufactures cooking equipment for restaurants and institutional kitchens. The products include conveyor ovens, proofing ovens, speed cooking ovens and induction cooking equipment. The equipment in this segment are sold under brands like Combi, Lang, MPC, PrefectFry, CookTek, Southbend and Wells.

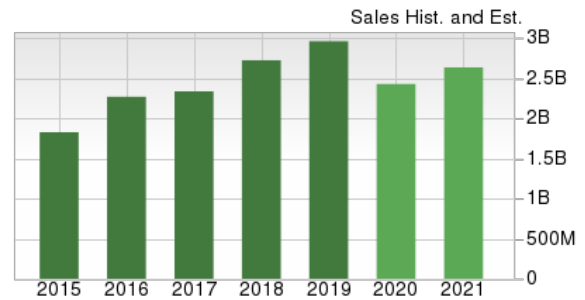
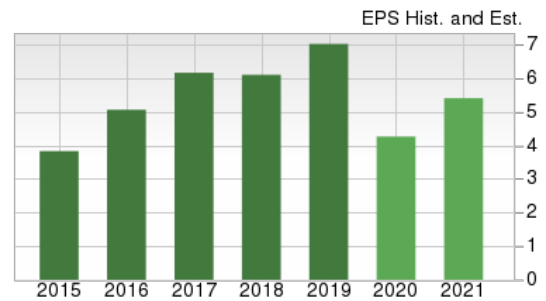
Notably, this segment's manufacturing operations are based in Arkansas, Illinois, California, Michigan, North Carolina, Texas, Washington, Australia, China, Denmark and Italy, among others.

- **Food Processing Equipment Group** (21.8%) manufactures equipment for the food processing industry. It offers a variety of products including batch ovens, processing ovens, defrosting and packaging equipment among others. The products are sold under various brands such as Auto-Bake, Alkar, Cozzini and RapidPak.

This segment's manufacturing operations are located in Georgia, North Carolina, Illinois, Iowa, Oklahoma, Washington, Denmark, France, Germany, India, and the United Kingdom, among others.

- **Residential Kitchen Equipment Group** (21.5%) manufactures equipment for the residential market, recording the revenues for Viking and Brigade. It offers ovens, dishwashers, cooktops, microwaves and other outdoor equipment.

Notably, this segment's manufacturing facilities are located in California, Mississippi, Michigan, Wisconsin, France, Ireland and the United Kingdom.



Reasons To Buy:

- ▲ For the Residential Kitchen Equipment Group, Middleby is witnessing improving orders across its residential businesses in both the U.S. and the U.K. markets. The incoming orders for July 2020 in the segment were up 28% on a year-over-year basis. For the Food Processing Equipment Group, strong backlog level (about \$138 million at the end of July 2020) along with increasing demand from food processing customers will likely support its top-line performance in the quarters ahead. Notably, incoming orders for July 2020 in the segment surged 83%, reflecting signs of recovery in core markets. Also, over the past year, the company has made significant investments in targeted growth segments, research and development programs to focus on technology initiatives, and products as per industry trends. Notably, it developed and launched the COVID-19 containment-related products for restaurants and retail locations, which will ultimately boost its top-line performance in the quarters ahead. Moreover, some of the actions being taken by the company include the reduction of discretionary expenses, eliminating unnecessary investments, strengthening supply-chain, and execution of working capital initiatives. Going forward, the measures will help it maintain a healthy margin performance amid the crisis.
- ▲ Middleby's robust liquidity position adds to its strength. In the last three years (2017-2019), the company's cash flow from operations increased 8.7% (CAGR). Notably, in the second quarter of 2020, its cash flow from operations increased 14.8% on a year-over-year basis to \$77.6 million. Notably, in the quarter, the company's free cash flow recorded an increase of 35.8% to \$73.5 million on a year-over-year basis. Also, it stated that for the past year, its free cash flow has surpassed \$400 million, marking a record level. In addition, its cash and cash equivalents increased to \$649.7 million, up from \$81.7 million in the year-ago quarter. Notably, the company's healthy liquidity position might help it tide over the difficult operating conditions caused by the pandemic.
- ▲ Middleby is currently following an acquisition-based growth strategy. In 2019, it acquired Synesso, Evo, Powerhouse Dynamics, Ss Brewtech and Cooking Solutions Group for its Commercial Foodservice Equipment Group, whereas it acquired Brava for its Residential Kitchen Equipment Group and Pacproinc for its Food Processing Equipment Group. Also, the company acquired RAM Fry Dispensers in January 2020. The buyout strengthened Middleby's product offerings in the restaurant automation platform. In addition, the company's Deutsche Beverage buyout (March 2020) is helping it strengthen its product offerings in the beverage platform. Notably, acquired assets boosted its sales by 5.2% and 2.3% in the first and second quarters of 2020, respectively.

Business acquisitions, healthy liquidity position and focus on supply-chain initiatives will likely benefit Middleby in the quarters ahead. Also, its cost-saving measures might help deal with the pandemic-related financial stress.

Reasons To Sell:

▼ In second-quarter 2020, Middleby's organic sales declined 39.8% year over year, with a fall of 49.4% for the Commercial Foodservice Equipment Group. For 2020, the Commercial Foodservice Equipment Group will likely suffer from challenged demand environment and lower restaurant activities, particularly at the travel-related and dine-in only spaces on account of the coronavirus outbreak. For instance, in July 2020, incoming orders in the segment declined 17% on a year-over-year basis. Notably, in the second quarter, the company's operating margin fell 10 percentage points year over year to 8.3%. Rising costs, if unchecked, will likely continue to dent its margins in the quarters ahead. In the last six months, Middleby's shares lost 14.9% compared with the industry's decline of 7.8%.

Weak demand environment due to the coronavirus outbreak, rising costs, forex woes and high debts might weigh on Middleby's performance in the quarters ahead.

▼ The company's long-term debt in the last three years (2017-2019) rose 22.2% (CAGR). Also, at the end of the second quarter of 2020, the metric grew 9% sequentially to \$2,373 million. Also, we find the company more leveraged than the industry. The stock's long-term debt-to-capital ratio is 0.55, higher than the industry's 0.49. Also, the company's ability of repay the financial obligations seems to have weakened in the quarter, with times interest earned declining from 7 in the first quarter of 2020 to 5.8 in the second quarter. Also, in August 2020, the company amended its senior credit facility. With this amendment, the company's secured senior credit facility will be worth \$3.1 billion, which comprises of a term loan of \$350 million and revolving credit facility (multiple currencies) of \$2.75 billion. In addition, it offered \$650 million worth of convertible senior notes. We believe such types of transactions are expected to increase its debts and in turn, are likely to inflate financial obligations and hurt profitability.

▼ International businesses have exposed Middleby to risks arising from geopolitical issues, unfavorable movements in foreign currencies and others. For instance, in the first and second quarters of 2020, forex woes had negative impacts of 0.6% and 0.5%, respectively, on revenues. We believe that due to large international exposure, the company might continue facing hurdles from forex woes.

Last Earnings Report

Middleby Q2 Earnings Surpass Estimates, Decline Y/Y

Middleby reported better-than-expected results for second-quarter 2020, with earnings surpassing estimates by 34.15%. This is the company's fourth consecutive quarter of impressive results. Also, sales in the second quarter surpassed estimates by 4.59%.

The company's adjusted earnings in the reported quarter were 55 cents per share, surpassing the Zacks Consensus Estimate of \$1.72. However, the bottom line decreased 69.4% from the year-ago quarter figure of \$1.80 due to weak sales generation and lower margins.

Quarter Ending **06/2020**

Report Date	Aug 05, 2020
Sales Surprise	4.59%
EPS Surprise	34.15%
Quarterly EPS	0.55
Annual EPS (TTM)	5.73

Revenue Picture

In the quarter under review, Middleby's sales were \$472 million, reflecting a year-over-year decline of 38%. Organic revenues in the quarter declined 39.8% year over year due mainly to difficulties caused by the pandemic. Acquired assets grew sales by 2.3%, while unfavorable movements in foreign currencies had a negative impact of 0.5%.

However, its net sales surpassed the Zacks Consensus Estimate of \$451 million.

The company reports net sales under three segments. A brief discussion of those segments is provided below:

Sales from the **Commercial Foodservice Equipment Group** (representing 56.7% of the reported quarter's net sales) were \$267.5 million, decreasing 47.9% year over year. Sales, excluding the impact of forex woes and buyouts, fell 49.4% year over year in the quarter.

Sales from the **Residential Kitchen Equipment Group** (representing 21.8% of the reported quarter's net sales) totaled \$102.9 million, declining 31.3% year over year. Sales (excluding the impact of forex woes, end of non-core businesses and buyouts) in the quarter declined 32.2% year over year.

Sales from the **Food Processing Equipment Group** (representing 21.5% of the reported quarter's net sales) were \$101.6 million, increasing 3.8% year over year. Excluding the impact of forex woes and buyouts, sales decreased 1.2% year over year.

Margin Profile

In the quarter under review, Middleby's cost of sales decreased 32.8% year over year to \$318.9 million. It represented 67.6% of sales compared with 62.4% in the year-ago quarter. Gross profit fell 46.5% year over year to \$153.1 million. Gross margin decreased 520 basis points (bps) to 32.4%.

Selling, general and administrative expenses decreased 22.7% year over year to \$111.8 million. It represented 23.7% of sales in the reported quarter. Operating income in the quarter under review decreased 72% year over year to \$39.1 million. Operating margin fell 10 percentage points year over year to 8.3%.

Net interest expenses and deferred financing amortization totaled \$21.8 million, down from \$22 million in the year-ago quarter.

Balance Sheet and Cash Flow

Exiting the second quarter, Middleby had cash and cash equivalents of \$649.7 million, surging 70.5% from \$381 million at the end of the last reported quarter. Long-term debt grew 9% sequentially to \$2,373 million.

In the second quarter, the company generated net cash of \$77.6 million from operating activities, reflecting growth of 14.8% from the year-ago quarter. Capital expenditure totaled \$4.2 million versus \$13.5 million in second-quarter 2019. Free cash flow increased 35.8% year over year to \$73.5 million.

Outlook

In the quarters ahead, Middleby anticipates gaining from product launches, innovation efforts, focus on strengthening supply chain and cost-saving actions. Also, the company anticipates generating positive cash flows in the rest of 2020, while also cut down on its capital spending.

For the Commercial Foodservice Equipment Group, the company expects to benefit from improved demand from healthcare and retail end markets. Also, demand pick-up is expected from convenience stores, pizza and quick-serve restaurants.

For the Residential Kitchen Equipment Group, the company expects improved demand, especially in the U.K. and the U.S. markets, to be beneficial and drive performances.

For the Food Processing Equipment Group, innovation investment and improved backlog will likely aid its performance. However, disruptions caused by the pandemic might hurt near-term orders.

Recent News

Middleby Prices \$650M Worth of Senior Notes Offering

On **Aug 18, 2020**, Middleby announced an increase of \$100 million in its previous offering of \$550 million worth of convertible senior notes. Subject to the fulfillment of customary conditions, the private offering of notes is expected to close on Aug 21, 2020.

The \$650-million senior notes offering is for qualified institutional buyers — as defined under the Securities Act of 1933. Also, the initial buyers have been given the facility to purchase extra \$97.5 million (upside from the previously offered \$82.5 million) notes in 13 days.

The above-mentioned notes — to be considered the company's senior unsecured obligations — carry a coupon rate of 1% and will mature on Sep 1, 2025. Interest payments on them will be done twice annually, on Mar 1 and Sep 1. The first interest payment will be made on Mar 1, 2021.

Conversion conditions are separate, if the conversion option is exercised before Jun 1, 2025, and on or after Jun 1, 2025. Cash equivalent of the principal amount of the notes to be converted will be paid by Middleby. Also, the company may use cash or common shares or both cash and shares for the payment of any amount exceeding the principal amount of the notes to be converted. For each \$1,000 principal amount of senior notes, the company will exchange 7.7746 of its common shares.

Middleby's Capital Structure Reframing

On **Aug 17, 2020**, Middleby announced that it undertook multiple financial transactions to reshape its capital structure. The company opted to amend its senior credit facility and hence, entered an agreement with other related parties. A brief of the amendments is provided below.

With this, Middleby's senior credit facility (secured) will be worth \$3.1 billion —comprising of a term loan of \$350 million and revolving credit facility (multiple currencies) of \$2.75 billion. The secured credit facility's date of maturity will be Jan 31, 2025.

The threshold leverage ratio will likely be 5.50:1.00. Borrowing costs will likely be the same at pre-amendment level. The agreement also provides for secured net debt leverage ratio of 3.50:1.00. This ratio can reach up to 4.50:1.00 by the end of first-quarter 2021 and to 4.25:1.00 at the end of second-quarter 2021.

Notably, the agreement is conditioned upon the prepayment of \$400 million worth of term loan by Middleby.

In addition to the above, the company announced its intention to offer convertible senior notes worth \$550 million. The private offering of notes will be for qualified institutional buyers — defined under the Securities Act of 1933. Also, the initial buyers will likely have the facility to purchase extra \$82.5 million notes in 13 days.

The company noted that the senior notes will mature on Sep 1, 2025, and interest payments on them will be done twice annually. Conversion conditions are separate, if the conversion option is exercised before Jun 1, 2025, and on or after Jun 1, 2025. Proceeds from the offering will be used for the prepayment of term loan and satisfy general corporate needs. Also, the company might fund expenses related to capped call transactions with the note offering proceeds.

Notably, the capped call transactions, when implemented, will help Middleby nullify the dilutive impact of notes conversion into shares.

Valuation

Middleby shares are down 14% in the year-to-date period and 15.2% over the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Industrial Products sector are down 3.7% and 2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry increased 9.2%, while the sector increased 12.5%.

The S&P 500 Index has moved up 5.2% year to date and increased 16.2% in the past year.

The stock is currently trading at 19.47x forward 12-month earnings per share, which compares to 27.79x for the Zacks sub-industry, 22.06x for the Zacks sector and 22.9x for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.93x and as low as 5.91x, with a 5-year median of 19.31x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our price target of \$99 reflects 20.46x forward 12-month earnings per share.

The table below shows summary valuation data for MIDD.

Valuation Multiples - MIDD					
		Stock	Sub-Industry	Sector	S&P 500
	Current	19.47	27.79	22.06	22.9
D/E F12M	5 Year High	26.93	27.79	22.06	22.9

P/E F12M	5-Year High	20.93	21.19	22.00	22.9
	5-Year Low	5.91	15.6	12.55	15.25
	5-Year Median	19.31	19.7	17.48	17.58
	Current	2.07	3.51	2.96	3.72
	5-Year High	3.46	3.51	2.96	3.72
	5-Year Low	0.8	1.58	1.52	2.53
	5-Year Median	2.54	2.25	2.04	3.05

As of 08/19/2020

Industry Analysis Zacks Industry Rank: Bottom 33% (170 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Altra Industrial Motion Corp. (AIMC)	Outperform	2
Flowserve Corporation (FLS)	Outperform	3
Applied Industrial Technologies, Inc. (AIT)	Neutral	5
Colfax Corporation (CFX)	Neutral	3
IDEX Corporation (IEX)	Neutral	3
Nordson Corporation (NDSN)	Neutral	3
Welbilt, Inc. (WBT)	Neutral	3
Ingersoll Rand Inc. (IR)	Underperform	5

Industry Comparison Industry: Manufacturing - General Industrial				Industry Peers		
	MIDD	X Industry	S&P 500	CFX	IEX	IR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	5
VGM Score	B	-	-	C	C	F
Market Cap	5.24 B	1.32 B	23.61 B	4.01 B	13.27 B	14.36 B
# of Analysts	4	3	14	10	7	4
Dividend Yield	0.00%	0.00%	1.65%	0.00%	1.14%	0.00%
Value Score	C	-	-	C	D	F
Cash/Price	0.11	0.10	0.07	0.02	0.06	0.08
EV/EBITDA	10.73	12.37	13.36	15.51	20.71	37.13
PEG Ratio	NA	3.32	2.99	4.85	3.67	3.45
Price/Book (P/B)	2.70	2.14	3.16	1.18	5.87	1.66
Price/Cash Flow (P/CF)	10.70	10.70	12.71	7.31	25.59	20.89
P/E (F1)	22.03	27.12	21.82	25.07	36.68	27.33
Price/Sales (P/S)	1.97	1.27	2.47	1.27	5.56	4.40
Earnings Yield	4.52%	3.46%	4.37%	3.98%	2.72%	3.66%
Debt/Equity	1.22	0.51	0.76	0.69	0.46	0.44
Cash Flow (\$/share)	8.81	2.49	6.94	4.64	6.87	1.65
Growth Score	D	-	-	D	B	C
Hist. EPS Growth (3-5 yrs)	12.43%	10.00%	10.44%	8.33%	13.05%	NA
Proj. EPS Growth (F1/F0)	-39.28%	-25.32%	-5.97%	-41.97%	-17.36%	-20.75%
Curr. Cash Flow Growth	13.23%	0.16%	5.22%	27.59%	4.80%	-25.03%
Hist. Cash Flow Growth (3-5 yrs)	16.08%	7.19%	8.52%	3.20%	7.29%	5.38%
Current Ratio	3.27	2.06	1.33	1.62	3.48	2.25
Debt/Capital	55.03%	34.34%	44.50%	40.92%	31.60%	30.64%
Net Margin	10.75%	4.34%	10.13%	-0.33%	15.71%	-4.51%
Return on Equity	16.66%	10.81%	14.67%	6.54%	18.15%	-2.80%
Sales/Assets	0.52	0.75	0.51	0.40	0.61	0.33
Proj. Sales Growth (F1/F0)	-17.97%	-7.90%	-1.54%	-17.27%	-9.11%	109.53%
Momentum Score	A	-	-	B	D	F
Daily Price Chg	-2.59%	0.00%	-0.38%	-0.15%	-0.44%	-0.55%
1 Week Price Chg	-0.04%	2.61%	1.09%	3.69%	5.47%	4.42%
4 Week Price Chg	10.69%	4.19%	2.23%	8.58%	3.81%	7.93%
12 Week Price Chg	28.14%	13.49%	6.91%	15.31%	10.41%	14.77%
52 Week Price Chg	-15.26%	-0.10%	2.28%	26.02%	5.99%	16.36%
20 Day Average Volume	840,318	56,220	1,899,976	892,224	367,216	2,426,685
(F1) EPS Est 1 week change	3.02%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	6.12%	4.42%	1.70%	15.65%	0.21%	-775.00%
(F1) EPS Est 12 week change	8.37%	3.13%	3.08%	11.63%	2.82%	-5,500.00%
(Q1) EPS Est Mthly Chg	20.36%	0.00%	0.83%	19.56%	-4.55%	-1,000.00%

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	D
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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