

## Monster Beverage Corp. (MNST)

**\$83.10** (As of 08/05/20)

Price Target (6-12 Months): **\$96.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Outperform**

(Since: 08/05/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

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

**1-Strong Buy**

Zacks Style Scores:

VGM:D

Value: F

Growth: B

Momentum: C

### Summary

Shares of Monster Beverage have outperformed the industry in the past three months, courtesy of strength in the energy drinks category and robust second-quarter 2020 results. Despite adverse impacts of the COVID-19 pandemic, sales improved on a sequential basis in the second half of the quarter with stores reopening in a phased manner. Its earnings reflected gains from cost leverage, which further led to gross and operating margin growth. Moreover, management doesn't foresee any material impact of COVID-19 and stated that it is not facing any supply-chain disruption, currently. However, it witnessed a shift in consumer preference and lower traffic in convenience stores and gas stations along with a decline in the food service on-premise channel. Apart from these, unfavorable currency movements and stiff competition remain concerns.

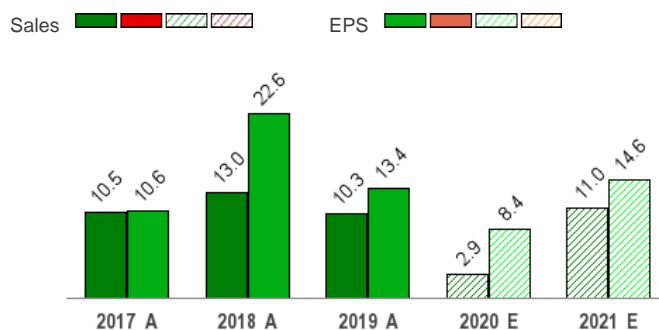
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$83.96 - \$50.06</b>
20 Day Average Volume (sh)	<b>2,215,564</b>
Market Cap	<b>\$43.8 B</b>
YTD Price Change	<b>30.8%</b>
Beta	<b>1.07</b>
Dividend / Div Yld	<b>\$0.00 / 0.0%</b>
Industry	<b><a href="#">Beverages - Soft drinks</a></b>
Zacks Industry Rank	<b>Top 40% (101 out of 253)</b>

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



Last EPS Surprise	<b>22.9%</b>
Last Sales Surprise	<b>8.7%</b>
EPS F1 Est- 4 week change	<b>6.5%</b>
Expected Report Date	<b>11/05/2020</b>
Earnings ESP	<b>3.0%</b>
P/E TTM	<b>39.0</b>
P/E F1	<b>37.8</b>
PEG F1	<b>2.7</b>
P/S TTM	<b>10.2</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,113 E	1,133 E	1,241 E	1,182 E	4,800 E
2020	1,062 A	1,094 A	1,154 E	1,090 E	4,324 E
2019	946 A	1,104 A	1,134 A	1,017 A	4,201 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.59 E	\$0.71 E	\$0.73 E	\$0.61 E	\$2.52 E
2020	\$0.52 A	\$0.59 A	\$0.63 E	\$0.53 E	\$2.20 E
2019	\$0.48 A	\$0.53 A	\$0.55 A	\$0.47 A	\$2.03 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 08/05/2020. The reports text is as of 08/06/2020.

## Overview

Monster Beverage Corporation, headquartered in Corona, CA, is a marketer and distributor of energy drinks and alternative beverages. Incorporated in 1990 in Delaware, Monster Beverage was previously known as Hansen Natural Corporation. In 1992, the company acquired the Hansen Beverage business.

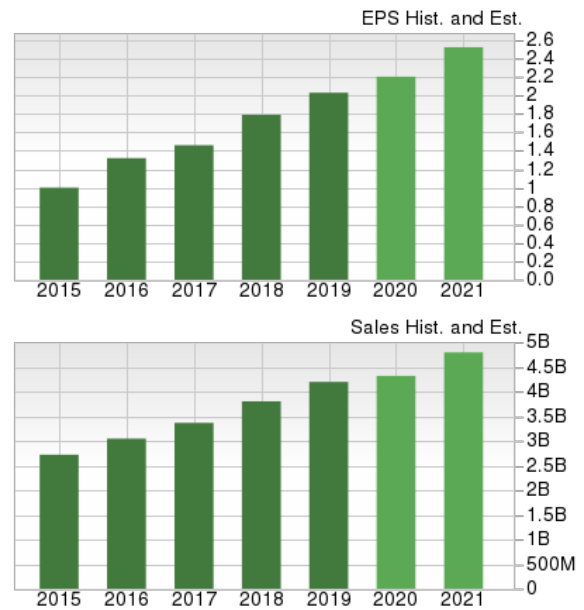
On Jun 12, 2015, Monster Beverage closed a deal with The Coca-Cola Company (TCCC). Per this long-term strategic deal, Coca-Cola acquired an approximate 16.7% equity stake in Monster Beverage. Coca Cola also transferred ownership of global energy drinks business, which includes brands like NOS, Full Throttle, to Monster Beverage. In exchange, Monster Beverage transferred non-energy business to TCCC.

Monster Beverage reports results under three operating segments:

**Monster Energy Drinks** (92.9% of net sales in FY19): Monster Energy Drinks Segment includes the former Direct Store Delivery segments, excluding Peach Tea brand. This segment comprises mostly Monster Energy brand products.

**Strategic Brands** (6.5%): The Strategic Brands segment includes brands acquired from the "TCCC Transaction". Monster Beverage observes the same business model with acquired brands as their previous owner.

**Other** (0.5%): The Other segment includes the former warehouse segment and the Peach Tea brand. The segment also includes products acquired from the AFF Transaction that are sold to independent third-parties. On Apr 1, 2016, the company acquired the concentrate and flavor business of American Fruits and Flavors (AFF).



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## Reasons To Buy:

- ▲ **Robust Q2 Performance, Cost Leverage Aid Earnings:** Shares of Monster Beverage have gained 33.9% in the past three months compared with the industry's 5.7% growth. The company posted impressive second-quarter 2020 results. Despite adverse impacts of the COVID-19 pandemic, sales improved on a sequential basis in the second half of the quarter with stores reopening in a phased manner. Solid performance in its online, club store, mass merchandiser and grocery and related businesses provided some cushion to the top line. Also, management doesn't foresee any material impact of COVID-19 and noted that it is not facing any supply-chain disruption, currently.

Monster Beverage reported impressive second-quarter 2020 results, driven by store reopening efforts in the second half of the quarter. The bottom line benefited from significant cost leverage.

Notably, operating expense leverage led to gross and operating margin growth. Operating expenses, as a percentage of sales, declined 250 bps to 23.1%. Selling expenses, as a percentage of net sales, decreased 240 bps to 8.8%. Meanwhile, distribution costs, as a percentage of net sales, expanded 20 bps to 3.6%. General and administrative expenses, as a percentage of net sales, contracted 20 bps to 10.7%. Consequently, operating income of \$407.3 million grew 7.5% year over year. Moreover, the operating margin expanded 2,900 bps to 37.2% in the reported quarter.

- ▲ **Sturdy Energy Drinks Category:** Monster Beverage has been experiencing continued strength in its energy drinks category, which is driving performance. In second-quarter 2020, the segment's net sales rose 0.8% year over year to \$1.03 billion. We note that the company offers a wide range of energy drinks brands such as Monster Energy, Java Monster, Cafe Monster, Espresso Monster, Monster Energy Mule, Juice Monster Pipeline Punch, Juice Monster Pacific Punch, Juice Monster Mango Loco, Monster Ultra Paradise, Monster Hydra Sport, among others. Moving ahead, management is optimistic about strength in the energy drinks category with the Monster Energy brand growing significantly. Also, the product launches across the Monster family will drive the company's overall top and bottom lines.

- ▲ **Product Innovations & Launches to Drive Top Line:** Product innovation plays a significant role in the company's success. Monster Beverage remains committed to product launches and innovation to boost growth. In second-quarter 2020, it introduced Monster Energy brand energy drinks and Reign Total Body Fuel high-performance energy drinks in a few countries. Apart from these, other notable launches include Fury Gold Strike in Honduras and Salvador, Predator Gold Strike in Nigeria, Ultra Paradise in Argentina and Puerto Rico, Monster Mango Loco in Guatemala, El Salvador and Honduras, Monster Energy Mule and Mother Tropical Blast in New Zealand, Juice Monster Pacific Punch in Spain, Juice Monster Pipeline Punch in Romania, Juice Monster Mango Loco in Switzerland, and Monster Ultra Paradise in Austria, the Baltics, Hungary, Denmark, Spain and Poland.

Currently, Juice Monster Pacific Punch and Juice Monster Pipeline Punch are available in 10 and 21 markets across EMEA and expected to be expanded in additional two and eight markets, respectively, in 2020. Also, Juice Monster Mango Loco and Monster Ultra Paradise are now available in 35 and 14 markets in EMEA and will be soon available in 10 and seven more markets, respectively, in 2020. In addition to these, Espresso Monster in Milk and Vanilla flavors are available in 20 markets in EMEA and will be launched in 2 more markets. Monster Hydra Sport, which was introduced in Spain, will be available in another market by 2020. Encouraged by the performance of Reign, the company plans to expand it to six more markets in 2020. Monster Mule, which was launched in Poland, is anticipated to be launched in additional nine markets in 2020. For the third quarter, the company intends to launch Predator in Ethiopia and additional six EMEA markets — Bosnia, Croatia, Ghana, Romania, Russia and Slovenia — in 2020.

- ▲ **Healthy Financials & Share Buybacks:** Apart from boasting a healthy balance sheet, Monster Beverage undertakes shareholder-friendly actions via share repurchases. It ended second-quarter 2020 with cash and cash equivalents of \$921.3 million. In the reported quarter, the company bought back 0.3 million shares for \$15.6 million (excluding broker commissions), with an average price of \$52.88 per share. As of Aug 4, 2020, it had \$441.5 million remaining under the previously authorized share repurchase plan.
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## Risks

- **Valuation Looks Stretched:** Considering price-to-earnings (P/E) ratio, Monster Beverage looks pretty overvalued when compared with the industry and the S&P 500. The stock has a trailing 12-month P/E ratio of 40.15x, which is higher than the median level of 30.91x and at par with the high level scaled in the past year. On the contrary, the trailing 12-month P/E ratio is 22.27x for the industry and 23.42x for the S&P 500. Given these factors, we believe that the stock is quite stretched from the P/E aspect.
  - **Coronavirus Woes Weigh on Q2 Top Line:** Adverse impacts of coronavirus, including reduced inventory level of bottlers/distributors, hurt the second-quarter top line to some extent. Notably, net sales and gross sales (net of discounts and returns) edged down 0.9% year over year, each. Further, net sales in the Strategic Brands declined 24.7% in the second quarter, hurt by COVID-19 impacts, particularly in the EMEA region where the lockdown was for an extended period of time. The company's initial sales for the second quarter (through May 7) have been adversely impacted by lower traffic in convenience stores and gas stations along with a decline in food service on-premise channel. That said, the company notes that there has been a change in consumer channel preference since the middle of March, with a rise in in-home consumption and a fall in immediate consumption.
  - **Unfavorable Foreign Currency:** Monster Beverage's significant international presence exposes it to foreign currency risks, which have been hurting its performance. Apparently, currency fluctuations weighed on net and gross sales by \$18.2 million and \$21.6 million, respectively. Further, net sales at the Monster Energy Drinks and Strategic Brands segments were adversely impacted by roughly \$16.8 million and \$1.4 million, respectively, from currency.
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## Last Earnings Report

### Monster Beverage Q2 Earnings & Sales Beat Estimates

Monster Beverage posted impressive second-quarter 2020 results. Despite adverse impacts of the ongoing COVID-19 pandemic, sales improved on a sequential basis in the second half of the quarter with stores reopening in a phased manner. Further, the company has been witnessing a shift in consumer preference since mid-March with a spike in demand for at-home consumption.

Solid performance in its online, club store, mass merchandiser and grocery and related businesses provided some cushion to the top line, which was hurt by weak traffic in the convenience and gas channel along with softness in EMEA. However, the food service on-premise unit remains drab. That said, management doesn't foresee any material impact of COVID-19 and also noted that it is not facing any supply-chain disruption, currently.

Quarter Ending **06/2020**

Report Date	Aug 04, 2020
Sales Surprise	8.66%
EPS Surprise	22.92%
Quarterly EPS	0.59
Annual EPS (TTM)	2.13

### Q2 Highlights

Monster Beverage's earnings of 59 cents per share rose 9.9% year over year and outpaced the Zacks Consensus Estimate of 48 cents.

Net sales of \$1,094 million edged down 0.9% year over year but surpassed the Zacks Consensus Estimate of \$1,007 million. Moreover, gross sales (net of discounts and returns) fell 0.9% to \$1,274.3 million. Adverse impacts of the COVID-19 pandemic hurt sales to a large extent, mostly in the EMEA region and the Strategic Brands segment. Also, unfavorable currency fluctuations weighed on net and gross sales by \$18.2 million and \$21.6 million, respectively.

### Segmental Performance

**Monster Energy Drinks:** The segment's net sales rose 0.8% year over year to \$1.03 billion due to adverse impacts of COVID-19 and a negative impact of \$16.8 million from unfavorable currency rates.

**Strategic Brands:** Apart from its affordable energy drink brands, the segment includes a range of energy drink brands acquired from The Coca-Cola Company. The segment's net sales declined 24.7% to \$59.6 million in the second quarter. Currency headwinds marred the segment's results by \$1.4 million. Moreover, the segment was most affected by COVID-19 impacts, particularly in the EMEA region where the lockdown was for an extended period of time.

**Other:** Net sales in the segment, which includes some products of American Fruits & Flavors sold to independent third parties (AFF Third-Party Products), grew 13.8% year over year to \$5.1 million.

### Costs & Margins

The company's second-quarter 2020 gross margin expanded 40 basis points (bps) to 60.3%. Operating expenses decreased 10.7% year over year to \$252.2 million, driven by reduced costs related to sponsorship and endorsements of \$19.8 as well as lower travel and entertainment costs to the tune of \$10.1 million as a result of the ongoing pandemic. Notably, as a percentage of sales, it declined 250 bps to 23.1%. Selling expenses, as a percentage of net sales, decreased 240 bps to 8.8%. Meanwhile, distribution costs, as a percentage of net sales, expanded 20 bps to 3.6%. General and administrative expenses, as a percentage of net sales, contracted 20 bps to 10.7%.

Operating income of \$407.3 million grew 7.5% year over year. Moreover, the operating margin expanded 2,900 bps to 37.2% in the reported quarter.

### Other Financials

Monster Beverage ended the second quarter with cash and cash equivalents of \$921.3 million, and total stockholders' equity of \$4,222.15 million.

In the reported quarter, the company bought back 0.3 million shares for \$15.6 million (excluding broker commissions), with an average price of \$52.88 per share. As of Aug 4, 2020, it had \$441.5 million remaining under the previously authorized share repurchase plan.

### Strategies on Track

Monster Beverage remains committed to product launches and innovation to boost growth. The company is now working toward new product launches in 2020. The company introduced Monster Energy brand energy drinks and Reign Total Body Fuel high-performance energy drinks in a few countries during the second quarter. Apart from these, other notable launches include Fury Gold Strike in Honduras and Salvador, Predator Gold Strike in Nigeria, Ultra Paradise in Argentina and Puerto Rico, Monster Mango Loco in Guatemala, El Salvador and Honduras, Monster Energy Mule and Mother Tropical Blast in New Zealand, Juice Monster Pacific Punch in Spain, Juice Monster Pipeline Punch in Romania, Juice Monster Mango Loco in Switzerland, and Monster Ultra Paradise in Austria, the Baltics, Hungary, Denmark, Spain and Poland.

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For the third quarter, the company intends to launch Predator in Ethiopia and additional six EMEA markets — Bosnia, Croatia, Ghana, Romania, Russia and Slovenia — in 2020.

## Valuation

Monster Beverage shares are up 30.8% for the year-to-date and nearly 37.6% the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 9.3% and 7.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 5.6% and 5.2%, respectively.

The S&P 500 index is up 2.6% in the year-to-date period and 15% in the past year.

The stock is currently trading at 36.45X forward 12-month earnings, which compares to 23.12X for the Zacks sub-industry, 19.95X for the Zacks sector and 22.71X for the S&P 500 index.

Over the past five years, the stock has traded as high as 42.78X and as low as 21.8X, with a 5-year median of 30.93X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$96 price target reflects 42.11X forward 12-month earnings.

The table below shows summary valuation data for MNST

Valuation Multiples - MNST					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	36.45	23.12	19.95	22.71
	5-Year High	42.78	23.12	22.37	22.71
	5-Year Low	21.8	18.35	16.63	15.25
	5-Year Median	30.93	21.54	19.57	17.55
P/S F12M	Current	9.5	4.47	9.44	3.63
	5-Year High	10.5	5.31	11.15	3.63
	5-Year Low	5.85	3.66	8.1	2.53
	5-Year Median	8.1	4.53	9.89	3.04
EV/EBITDA TTM	Current	27.79	19.1	35.94	12.89
	5-Year High	34.78	21.08	45.91	12.89
	5-Year Low	17.75	12.21	28	8.24
	5-Year Median	23.78	17.71	39.09	10.89

As of 08/05/2020

## Industry Analysis Zacks Industry Rank: Top 40% (101 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
CocaCola European Partners PLC (CCEP)	Outperform	2
National Beverage Corp. (FIZZ)	Outperform	1
COCACOLA HBC (CCHGY)	Neutral	3
CocaCola Amatil Ltd. (CCLAY)	Neutral	3
CocaCola Company The (KO)	Neutral	3
Coca Cola Femsa S.A.B. de C.V. (KOF)	Neutral	3
New Age Beverage Corporation (NBEV)	Neutral	3
PepsiCo, Inc. (PEP)	Neutral	3

Industry Comparison Industry: Beverages - Soft Drinks				Industry Peers		
	MNST	X Industry	S&P 500	KDP	KO	PEP
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	2	3	3
VGM Score	D	-	-	C	D	B
Market Cap	43.76 B	303.79 M	22.93 B	42.12 B	202.83 B	188.66 B
# of Analysts	8	1	14	8	8	8
Dividend Yield	0.00%	0.00%	1.76%	2.00%	3.47%	3.00%
Value Score	F	-	-	B	C	C
Cash/Price	0.02	0.05	0.07	0.00	0.10	0.05
EV/EBITDA	28.92	6.70	13.16	17.66	16.85	16.92
PEG Ratio	2.65	4.55	2.99	1.86	5.46	4.55
Price/Book (P/B)	10.36	3.15	3.20	1.84	10.57	14.99
Price/Cash Flow (P/CF)	38.10	10.40	12.45	17.36	19.33	18.61
P/E (F1)	37.77	22.34	21.78	21.45	26.25	25.50
Price/Sales (P/S)	10.16	2.34	2.47	3.73	5.91	2.79
Earnings Yield	2.65%	3.92%	4.33%	4.64%	3.81%	3.92%
Debt/Equity	0.00	0.53	0.77	0.52	1.97	3.05
Cash Flow (\$/share)	2.18	0.31	6.94	1.72	2.44	7.32
Growth Score	B	-	-	C	C	B
Hist. EPS Growth (3-5 yrs)	19.54%	8.51%	10.46%	-28.65%	1.58%	5.05%
Proj. EPS Growth (F1/F0)	8.56%	-2.98%	-7.14%	14.34%	-14.75%	-3.37%
Curr. Cash Flow Growth	9.91%	9.45%	5.47%	26.76%	4.40%	-2.46%
Hist. Cash Flow Growth (3-5 yrs)	18.17%	8.15%	8.55%	22.17%	-1.10%	1.04%
Current Ratio	3.51	1.33	1.32	0.31	1.09	0.97
Debt/Capital	0.00%	40.81%	44.59%	34.08%	66.29%	75.30%
Net Margin	26.57%	1.87%	10.15%	10.32%	26.77%	10.13%
Return on Equity	27.95%	6.28%	14.46%	7.91%	41.44%	54.77%
Sales/Assets	0.85	0.77	0.51	0.23	0.38	0.82
Proj. Sales Growth (F1/F0)	2.92%	0.00%	-1.68%	3.28%	-9.87%	1.72%
Momentum Score	C	-	-	D	F	D
Daily Price Chg	6.52%	0.00%	0.59%	-0.07%	1.14%	-0.89%
1 Week Price Chg	4.81%	-0.87%	0.14%	0.82%	-2.58%	1.18%
4 Week Price Chg	15.80%	1.51%	5.31%	4.61%	4.77%	1.51%
12 Week Price Chg	27.51%	13.28%	19.84%	13.28%	7.46%	2.47%
52 Week Price Chg	37.61%	-19.76%	2.73%	8.40%	-11.21%	6.63%
20 Day Average Volume	2,215,564	251,954	2,098,555	2,461,270	16,712,208	4,256,319
(F1) EPS Est 1 week change	5.63%	0.00%	0.00%	0.54%	0.00%	0.00%
(F1) EPS Est 4 week change	6.53%	0.00%	1.10%	0.72%	-1.71%	0.64%
(F1) EPS Est 12 week change	6.46%	0.00%	1.04%	1.09%	-1.57%	-0.74%
(Q1) EPS Est Mthly Chg	9.11%	0.00%	0.39%	-0.54%	-6.53%	-3.73%



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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	F
Growth Score	B
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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