

## Monster Beverage Corp. (MNST)

**\$65.78** (As of 05/08/20)

Price Target (6-12 Months): **\$69.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 03/27/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:C

Value: D

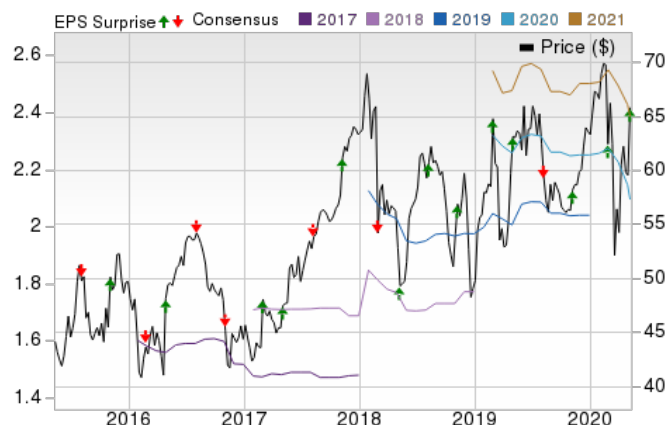
Growth: B

Momentum: D

### Summary

Shares of Monster Beverage outpaced the industry year to date owing to strength in the energy drinks category and strong first-quarter 2020 results. It reported impressive earnings and sales in the first quarter on meager impacts from the coronavirus pandemic as its flavor manufacturing facilities, co-packers, warehouses and shipment facilities remained operational. Its earnings reflected gains from strong sales growth and cost leverage. Sales were primarily fueled by gains from the Monster Energy brand's energy drinks internationally as well as Reign Total Body Fuel high-performance energy drinks. However, the company notes significant impacts of the pandemic on its April sales due to shift in consumer preference and lower traffic in convenience stores and gas stations along with a decline in food service on-premise channel.

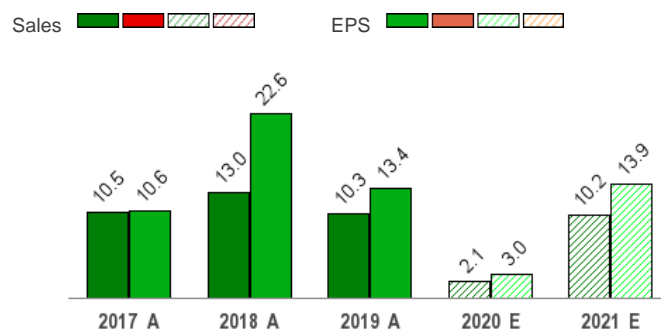
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$70.52 - \$50.06</b>
20 Day Average Volume (sh)	<b>2,524,996</b>
Market Cap	<b>\$34.6 B</b>
YTD Price Change	<b>3.5%</b>
Beta	<b>0.99</b>
Dividend / Div Yld	<b>\$0.00 / 0.0%</b>
Industry	<b><a href="#">Beverages - Soft drinks</a></b>
Zacks Industry Rank	<b>Bottom 43% (143 out of 253)</b>

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



Last EPS Surprise	<b>8.3%</b>
Last Sales Surprise	<b>6.5%</b>
EPS F1 Est- 4 week change	<b>-5.6%</b>
Expected Report Date	<b>NA</b>
Earnings ESP	<b>-4.5%</b>
P/E TTM	<b>31.8</b>
P/E F1	<b>31.5</b>
PEG F1	<b>2.2</b>
P/S TTM	<b>8.0</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,089 E	1,253 E	1,291 E	1,167 E	4,728 E
2020	1,062 A	1,068 E	1,161 E	1,079 E	4,290 E
2019	946 A	1,104 A	1,134 A	1,017 A	4,201 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.57 E	\$0.63 E	\$0.68 E	\$0.58 E	\$2.38 E
2020	\$0.52 A	\$0.50 E	\$0.59 E	\$0.52 E	\$2.09 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 05/08/2020. The reports text is as of 05/11/2020.

## 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.

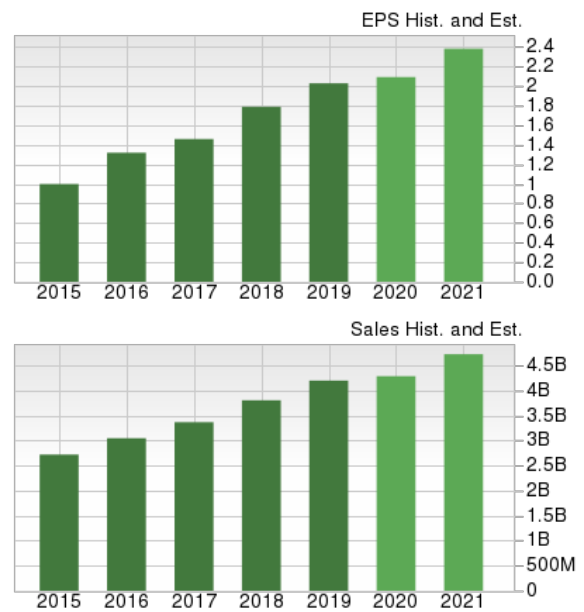
On Jun 12, 2015, Monster Beverage closed a deal with The Coca-Cola Company (TCCC). Per this long-term strategic deal, Coca-Cola acquired an approximate 16.7% equity stake in Monster Beverage. Coca Cola also transferred ownership of global energy drinks business, which includes brands like NOS, Full Throttle, 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 Q1 Performance, Cost Leverage Aid Earnings:** Shares of Monster Beverage have gained 3.5% year to date compared with the industry's 12.8% decline. The company reported impressive earnings and sales numbers in first-quarter 2020, driven by meager impacts from the coronavirus pandemic. Notably, its top and bottom lines not only outpaced the Zacks Consensus Estimate but also improved on a year-over-year basis. The company notes that the COVID-19 outbreak had minimal impact on its first-quarter results, as its flavor manufacturing facilities, co-packers, warehouses and shipment facilities remained operational, maintaining continued supplies.

Monster Beverage reported impressive first-quarter 2020 results driven by meager impacts from the coronavirus pandemic. The bottom line benefited from significant cost leverage.

Monster Beverage's bottom line in the first quarter reflected gains from cost leverage.

Notably, operating expense leverage more than offset the soft gross margin, leading to operating margin growth. In the first quarter, operating expenses rose 3.9% year over year, while as a percentage of sales it declined 210 bps to 25.6%. Selling expenses, as a percentage of net sales, decreased 70 bps to 10.3%. Meanwhile, distribution costs, as a percentage of net sales, declined 10 bps to 3.7%. General and administrative expenses, as a percentage of net sales, leveraged 120 bps to 11.7%. Consequently, operating income grew 17.2% year over year, while operating margin expanded 150 bps to 34.4% 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 first-quarter 2020, the company's net sales improved 12.3%, while gross sales were up 13.4%. Improvement in gross and net sales was mainly attributed to gains from the Monster Energy brand energy drinks internationally as well as Reign Total Body Fuel high-performance energy drinks. Net sales for the Monster Energy Drinks segment rose 14%. We note that the company offers a wide range of energy drinks brands such as Monster Energy, Java Monster, Cafe Monster, Espresso Monster, 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 first-quarter 2020, it launched several products in the United States, including a line of Reign Inferno Thermogenic Fuel, two new energy drinks in the Monster Ultra line, a line of Java Monster 300, and a line of Monster Hydro Super Sport as well as NOS Turbo. Further, it launched various Monster Energy brand energy drinks and Reign Total Body Fuel high-performance energy drinks in international markets. Moreover, its affordable energy brand – Predator – was launched in additional international markets, including Mexico, in the first quarter. The company plans to launch the brand to more markets in 2020.

Other notable product launches included the Monster Energy Dragon Tea in Brazil in the first quarter and in China in April 2020. It also added the Burn Dark Energy to its portfolio in Russia, a new Nalu energy tea line in Belgium, and the national launch of Mother Epic Swell in Australia, after a limited launch last year.

▲ **Healthy Financials & Share Buybacks:** Apart from boasting a healthy balance sheet, Monster Beverage undertakes shareholder-friendly actions via share repurchases. It ended first-quarter 2020 with cash and cash equivalents of \$701.8 million. In the reported quarter, the company bought back 10.5 million shares for \$579.3 million (excluding broker commissions), with an average price of \$55.22 per share. As of May 7, 2020, it had \$441.5 million remaining under the previously authorized share repurchase plan.

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## Reasons To Sell:

▼ **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 31.8x, which is higher than the median level of 30.7x and below the high level of 34.9x scaled in the past year. On the contrary, the trailing 12-month P/E ratio is 22.4x for the industry and 18.8x for the S&P 500. Given these factors, we believe that the stock is quite stretched from the P/E aspect.

▼ **Coronavirus Poses Threat for Q2:** Although the impact of coronavirus was not material in the first quarter, Monster Beverage notes that its April sales were significantly hurt by the pandemic. Meanwhile, bottler/distributor sales to retailers in the United States experienced lesser impacts. Moreover, 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. 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. Meanwhile, the e-commerce, club store, mass merchandiser, and grocery and related businesses have witnessed stable trends.

Moreover, the company notes that its recent launches in the United States and many other markets did not achieve the desired results, due to the coronavirus pandemic. This was partly due to some retailers postponing their new schematic plans, which included Monster Beverage's new products. The company is now working with distributors and bottlers to re-prioritize these launches when things turn to normalcy, in order to maximize their distribution to all channels.

▼ **Unfavorable Foreign Currency:** Monster Beverage's significant international presence exposes it to foreign currency risks, which have been hurting its performance. Apparently, the top line in first-quarter 2020 was partly negated by unfavorable currency that hurt gross and net sales by \$10.4 million and \$11.2 million, respectively. Further, net sales at the Monster Energy Drinks and Strategic Brands segments were adversely impacted by roughly \$10 million and \$0.4 million, respectively, from currency.

▼ **Industry Headwinds & Stiff Competition:** Apart from higher costs, changes in consumer tastes and preferences are major concern in the beverage industry. Health-conscious consumers are opting for better and healthier beverage alternatives like ready-to-drink tea and bottled water. The shift in consumers' preferences is impacting the volumes of soda beverages and energy drinks. Furthermore, Monster Beverage faces tough competition from other energy drink companies and shifting consumers' tastes. All these factors might exert pressure on the company's top and bottom lines.

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## Last Earnings Report

### Monster Beverage Q1 Earnings Beat on Strong Top Line

Monster Beverage reported impressive earnings and sales numbers in first-quarter 2020, driven by meager impacts from the coronavirus pandemic. Notably, its top and bottom lines not only outpaced the Zacks Consensus Estimate but also improved on a year-over-year basis. The company notes that the COVID-19 outbreak had minimal impact on its first-quarter results, as its flavor manufacturing facilities, co-packers, warehouses and shipment facilities remained operational, maintaining continued supplies.

Quarter Ending **03/2020**

Report Date	May 07, 2020
Sales Surprise	6.53%
EPS Surprise	8.33%
Quarterly EPS	0.52
Annual EPS (TTM)	2.07

However, it stated that its April sales witnessed significant impacts from the pandemic, while bottler/distributor sales to retailers in the United States experienced lesser impacts. Moreover, 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. So far in the second quarter, its sales have been adversely impacted by lower traffic in convenience stores and gas stations along with a decline in food service on-premise channel. Meanwhile, the e-commerce, club store, mass merchandiser, and grocery and related businesses have witnessed stable trends.

### Q1 Highlights

Monster Beverage's earnings of 52 cents per share rose 8.2% year over year and outpaced the Zacks Consensus Estimate of 48 cents.

Net sales of \$1,062.1 million improved 12.3% year over year and surpassed the Zacks Consensus Estimate of \$997 million. Moreover, gross sales (net of discounts and returns) rose 13.4% to \$1,236.1 million. Improvement in gross and net sales was mainly attributed to gains from the Monster Energy brand energy drinks internationally as well as Reign Total Body Fuel high-performance energy drinks. The gains were partly negated by unfavorable currency fluctuations, which hurt net and gross sales by \$10.4 million and \$11.2 million, respectively.

### Segmental Performance

**Monster Energy Drinks:** The segment's net sales rose 14% year over year to \$992.5 million. Robust gains from the sale of Monster Energy and Reign Total Body Fuel brands were partly offset by a negative impact of \$10 million from adverse currency rates.

**Strategic Brands:** Apart from its affordable energy drink brands, the segment includes a range of energy drink brands acquired from Coca-Cola. The segment's net sales declined 8.2% to \$64.5 million in the first quarter. Currency headwinds marred the segment's results by \$0.4 million.

**Other:** Net sales at the segment, which includes some products of American Fruits & Flavors sold to independent third parties (AFF Third-Party Products), fell 3.8% year over year to \$5.1 million.

### Costs & Margins

The company's first-quarter 2020 gross margin contracted 60 basis points (bps) to 60%. Operating expenses rose 3.9% year over year to \$272.2 million, while as a percentage of sales it declined 210 bps to 25.6%. Selling expenses, as a percentage of net sales, decreased 70 bps to 10.3%. Meanwhile, distribution costs, as a percentage of net sales, declined 10 bps to 3.7%. General and administrative expenses, as a percentage of net sales, leveraged 120 bps to 11.7%.

Operating income of \$365 million grew 17.2% year over year. Moreover, the operating margin expanded 150 bps to 34.4% in the reported quarter.

### Other Financials

Monster Beverage ended the first quarter with cash and cash equivalents of \$701.8 million, and total stockholders' equity of \$3,870.9 million.

In the reported quarter, the company bought back 10.5 million shares for \$579.3 million (excluding broker commissions), with an average price of \$55.22 per share. As of May 7, 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. In first-quarter 2020, the company launched several products in the United States, including a line of Reign Inferno Thermogenic Fuel, two new energy drinks in the Monster Ultra line, a line of Java Monster 300, and a line of Monster Hydro Super Sport as well as NOS Turbo. Further, it launched various Monster Energy brand energy drinks and Reign Total Body Fuel high-performance energy drinks in international markets. Moreover, its affordable energy brand – Predator – was launched in additional international markets, including Mexico, in the first quarter. The company plans to launch the brand to more markets in 2020.

Other notable product launches included the Monster Energy Dragon Tea in Brazil in the first quarter and in China in April 2020. It also added the Burn Dark Energy to its portfolio in Russia, a new Nalu energy tea line in Belgium, and the national launch of Mother Epic Swell in Australia, after a limited launch last year.

## Recent News

### Monster Beverage Announces \$500M Share Repurchase Plan - Mar 13, 2020

Monster Beverages' board has approved a new share repurchase plan worth \$500 million. The company has \$536.6 million remaining under its previous share repurchase program as of Mar 11, 2020.

## Valuation

Monster Beverage shares are up 3.6% in the year-to-date period and 5.5% for the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are down 12.8% and 15.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 8.1% and 10.6%, respectively.

The S&P 500 index is down 9% in the year-to-date period but up 4% in the past year.

The stock is currently trading at 29.93X forward 12-month earnings, which compares to 22.51X for the Zacks sub-industry, 18.9X for the Zacks sector and 21.15X for the S&P 500 index.

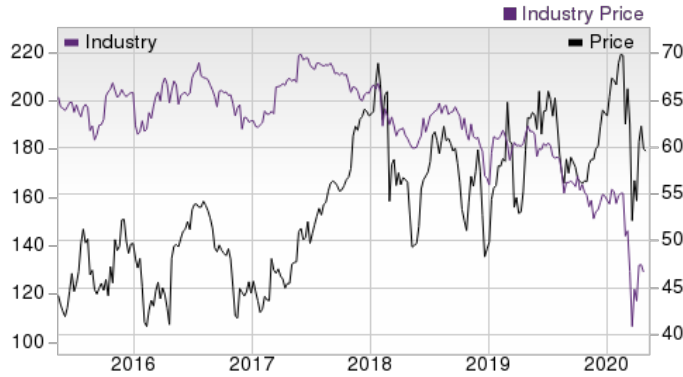
Over the past five years, the stock has traded as high as 42.78X and as low as 21.8X, with a 5-year median of 31.04X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$69 price target reflects 31.4X forward 12-month earnings.

The table below shows summary valuation data for MNST

Valuation Multiples - MNST					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	29.93	22.51	18.9	21.15
	5-Year High	42.78	23.2	22.37	21.15
	5-Year Low	21.8	18.37	16.65	15.19
	5-Year Median	31.04	21.48	19.66	17.45
P/S F12M	Current	7.79	4.48	8.85	3.3
	5-Year High	10.5	5.31	11.16	3.44
	5-Year Low	5.85	3.64	8.1	2.54
	5-Year Median	8.06	4.48	9.89	3.02
EV/EBITDA TTM	Current	22.15	17.33	33.72	10.64
	5-Year High	36.09	20.73	45.92	12.86
	5-Year Low	17.76	12.22	27.96	8.28
	5-Year Median	23.92	17.57	39.05	10.77

As of 05/08/2020

## Industry Analysis Zacks Industry Rank: Bottom 43% (143 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
CocaCola European Partners PLC (CCEP)	Neutral	4
COCACOLA HBC (CCHGY)	Neutral	4
CocaCola Amatil Ltd (CCLAY)	Neutral	3
National Beverage Corp (FIZZ)	Neutral	3
CocaCola Company The (KO)	Neutral	3
New Age Beverage Corporation (NBEV)	Neutral	3
PepsiCo Inc (PEP)	Neutral	3
Coca Cola Femsa SAB de CV (KOF)	Underperform	4

Industry Comparison Industry: Beverages - Soft Drinks				Industry Peers		
	MNST	X Industry	S&P 500	KDP	KO	PEP
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	A	F	D
Market Cap	34.64 B	135.39 M	20.19 B	37.06 B	198.04 B	186.24 B
# of Analysts	8	1	14	8	9	8
Dividend Yield	0.00%	0.00%	2.12%	2.28%	3.56%	2.85%
Value Score	D	-	-	C	D	D
Cash/Price	0.04	0.10	0.06	0.01	0.09	0.06
EV/EBITDA	22.49	5.43	11.95	16.18	16.15	16.33
PEG Ratio	2.21	3.98	2.60	1.65	4.17	5.07
Price/Book (P/B)	8.48	2.82	2.75	1.64	9.98	13.74
Price/Cash Flow (P/CF)	30.16	10.55	10.78	15.28	18.87	18.34
P/E (F1)	31.47	21.66	19.85	19.09	24.60	24.93
Price/Sales (P/S)	8.02	1.01	2.03	3.30	5.33	2.73
Earnings Yield	3.18%	4.31%	4.83%	5.24%	4.06%	4.01%
Debt/Equity	0.00	0.47	0.75	0.55	1.57	2.61
Cash Flow (\$/share)	2.18	0.31	7.01	1.72	2.44	7.32
Growth Score	B	-	-	B	D	D
Hist. EPS Growth (3-5 yrs)	19.63%	7.18%	10.87%	-26.61%	1.54%	5.38%
Proj. EPS Growth (F1/F0)	3.14%	-8.57%	-9.87%	13.11%	-11.17%	-2.64%
Curr. Cash Flow Growth	9.91%	13.73%	5.88%	26.76%	4.40%	-2.46%
Hist. Cash Flow Growth (3-5 yrs)	18.17%	6.34%	8.55%	22.17%	-1.10%	1.04%
Current Ratio	3.50	1.30	1.24	0.33	0.87	1.10
Debt/Capital	0.00%	34.91%	44.23%	35.44%	61.06%	72.28%
Net Margin	26.07%	-0.28%	10.68%	10.51%	26.95%	10.62%
Return on Equity	27.36%	7.71%	16.36%	7.71%	45.26%	55.74%
Sales/Assets	0.84	0.83	0.55	0.23	0.42	0.86
Proj. Sales Growth (F1/F0)	2.11%	0.00%	-2.26%	2.00%	-8.32%	0.64%
Momentum Score	D	-	-	A	C	C
Daily Price Chg	5.94%	3.33%	2.40%	-0.08%	3.39%	2.04%
1 Week Price Chg	-0.47%	0.00%	0.53%	-1.48%	0.37%	-3.14%
4 Week Price Chg	8.71%	0.84%	2.68%	-1.94%	-5.90%	0.45%
12 Week Price Chg	-5.61%	-15.03%	-19.20%	-7.84%	-22.65%	-8.36%
52 Week Price Chg	6.23%	-33.07%	-8.44%	-6.86%	-2.72%	6.49%
20 Day Average Volume	2,524,996	122,746	2,398,409	2,662,205	16,889,552	4,725,475
(F1) EPS Est 1 week change	-2.10%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-5.65%	0.00%	-6.95%	0.82%	-8.27%	-6.06%
(F1) EPS Est 12 week change	-7.02%	-26.00%	-15.68%	-0.90%	-16.94%	-9.18%
(Q1) EPS Est Mthly Chg	-11.83%	-3.16%	-13.12%	-4.76%	-23.81%	-21.69%



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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	D
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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### Disclosures

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