

## M&T Bank Corporation (MTB)

**\$109.64** (As of 08/07/20)

Price Target (6-12 Months): **\$114.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 06/01/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:D

Value: C

Growth: F

Momentum: B

### Summary

Shares of M&T Bank have underperformed the industry over the past three months. The company has a decent earnings surprise history, having surpassed the Zacks Consensus Estimate in two of the trailing four quarters. The second-quarter results reflect elevated provisions, lower revenues and controlled costs. The company's product and balance-sheet diversification efforts, with support from strong capital position, seem impressive. Revival of mortgage banking revenues, on account of lower rates, is likely to aid bottom-line growth. Further, increasing loans and deposits balance will support revenue growth. However, persistently rising expenses on account of upgrades in infrastructure and technology might deter bottom-line expansion. Also, significant exposure to commercial real estate loans and deterioration of credit quality are headwinds.

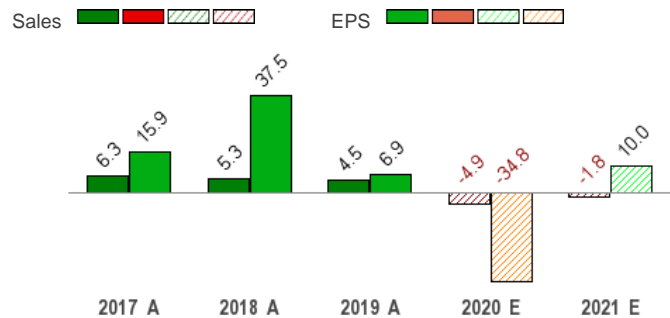
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$174.00 - \$85.09
20 Day Average Volume (sh)	821,318
Market Cap	\$13.8 B
YTD Price Change	-36.6%
Beta	1.20
Dividend / Div Yld	\$4.40 / 4.1%
Industry	<a href="#">Banks - Major Regional</a>
Zacks Industry Rank	Bottom 15% (213 out of 252)

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



Last EPS Surprise	-7.9%
Last Sales Surprise	-2.0%
EPS F1 Est- 4 week change	18.9%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	10.0
P/E F1	12.2
PEG F1	1.6
P/S TTM	2.1

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,484 E	1,467 E	1,488 E	1,480 E	5,785 E
2020	1,506 A	1,444 A	1,472 E	1,476 E	5,889 E
2019	1,551 A	1,554 A	1,558 A	1,530 A	6,192 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.29 E	\$2.39 E	\$2.71 E	\$2.81 E	\$9.86 E
2020	\$1.95 A	\$1.76 A	\$2.59 E	\$2.68 E	\$8.96 E
2019	\$3.38 A	\$3.34 A	\$3.47 A	\$3.60 A	\$13.75 A

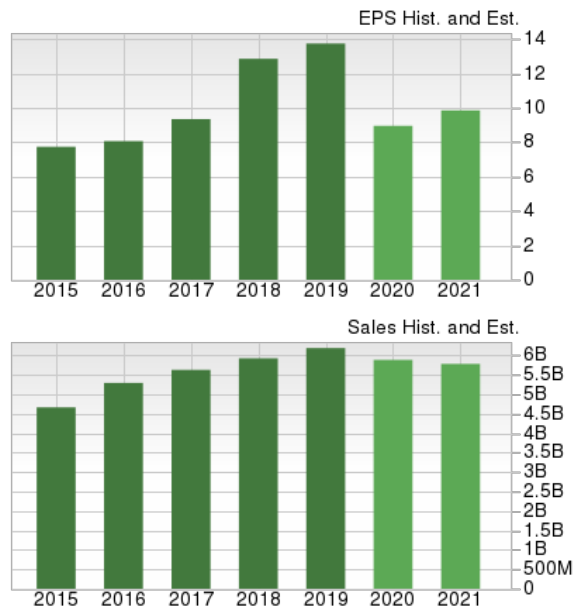
\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/07/2020. The reports text is as of 08/10/2020.

## Overview

Headquartered in Buffalo, N.Y. and founded in 1969, M&T Bank Corporation is the holding company for M&T Bank and Wilmington Trust, National Association. The company operates in New York, Maryland, Pennsylvania, Delaware, New Jersey, Virginia, West Virginia and the D.C. through following segments:

- The *Business Banking* segment provides various products and services including business loans and leases, credit cards, deposit products and financial services to small businesses and professionals.
- The *Commercial Banking* segment provides commercial lending and leasing, letters of credit, deposit products and cash management services to middle-market and large commercial customers.
- The *Commercial Real Estate* segment provides credit and deposit services to its customers.
- The *Discretionary Portfolio* segment includes investment and trading securities, residential mortgage loans and other assets; short-term and long-term borrowed funds; foreign exchange services; brokered certificates of deposit and interest rate swap agreements related thereto; and Cayman Islands office deposits.
- The *Residential Mortgage Banking* segment originates and services residential mortgage loans and sells substantially all of those loans in the secondary market to investors or to the Discretionary Portfolio segment.
- The *Retail Banking* segment offers various services to consumers through several delivery channels and certain deposit products through the delivery channels of Wilmington Trust, N.A. Credit services offered by the segment include consumer installment loans, automobile loans, home equity loans and lines of credit and credit cards.



The 'All Other' category reflects other activities of the company that are not directly attributable to the reported segments.

In November 2015, M&T Bank closed its merger with Hudson City Bancorp. The cash-and-stock deal was valued at \$5.3 billion.



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## Reasons To Buy:

- ▲ M&T Bank managed to register solid quarterly results even during the financial crisis. Since 2008, the company has recorded a consistent rise in its net interest income. Though NII declined in the first half of 2020 on lower interest rates, over the last five years (ended 2019), it witnessed a compound annual growth rate (CAGR) of 9.8%. M&T Bank operates as a solid and sustainable regional bank franchise with a footprint that spans seven Mid-Atlantic States as well as D.C. Therefore, this should allow the company to continue generating a decent level of interest income in the upcoming quarters.
- ▲ M&T Bank's non-interest income remained stable over the last few years, as growth in service charges on deposit accounts and trust income were negated by decline in mortgage banking revenues and brokerage services income, along with lower trading account and foreign exchange gains. Notably, the company witnessed 11% and slight year-over-year growth in 2019 and the first half of 2020, respectively, with the revival in the mortgage market and improved trading environment. Therefore, continuation of such trend will likely aid top-line expansion in the quarters ahead.
- ▲ Given its robust liquidity position, M&T Bank is well positioned to grow via acquisitions. The growth has been reflected in the company's accomplishment of several major acquisitions in and out of the U.S in the last several years. Further, product and balance-sheet diversification, stemming from these acquisitions, will likely support the company's top line.
- ▲ M&T Bank is focused on acquiring the industry's best deposit franchise. Deposits recorded a five-year CAGR of 1% (2015-2019), with some annual volatility. Further, the company has witnessed decent loan growth in the past few years, witnessing a five-year CAGR of 1% in 2019, with some annual volatility, mainly supported by rise in consumer loans. Both metrics continued to increase in the first half of 2020. We expect loan and deposit growth in the upcoming quarters catering customers' liquidity needs amid coronavirus woes.
- ▲ As of Jun 30, 2020, the company holds a debt level of \$6.4 billion and debt-capital ratio of 0.28X, which have been decreasing over the past few quarters. Therefore, with a rising time-interest-earned ratio of 11.6X over the past few quarters and a record of consistent earnings, M&T Bank carries low credit risk, and has a lesser likelihood of default of interest and debt repayments if the economic situation worsens.
- ▲ M&T Bank's capital deployment activities remain impressive. The company had increased its quarterly dividend by 10% in November 2019. Also, it had a share repurchase program in place, that was suspended mid-March following the coronavirus crisis. Notably, following the announcement of 2020 stress test results, the company will be maintaining the dividend level as before and keep share repurchases suspended in the third quarter of 2020 as well. Moreover, M&T Bank's favorable debt/equity ratio when compared to the broader industry along with consistent performance indicates that these dividend hikes are sustainable. We believe steady capital deployment activities will continue to inspire investors' confidence in the stock.
- ▲ Shares of M&T Bank have underperformed the industry over the past six months. Despite this unfavorable trend, the company's earnings estimates for 2020 have been revised 13% upward over the past 30 days. Therefore, given the progress on fundamentals and positive estimate revisions, the stock has upside potential.

Organic growth aided by rising loans and deposits along with inorganic growth strategies will bolster M&T Bank's revenue. Also, rising net interest and non-interest income are positive factors.

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## Reasons To Sell:

- ▼ With continuously rising non-interest operating expenses, M&T Bank is exposed to operational risks. Though expenses decreased in the first six months of 2020, the same witnessed a CAGR of 5.3% over the last five years (2015-2019). Further, given the ongoing investments in several areas including operational infrastructure and technology, we expect the company's expense base to remain under pressure. Escalating costs limit operational efficiency and remain a hindrance for the bottom line.
- ▼ Deteriorating credit metrics remain a headwind for the company. Provision for credit losses recorded a five-year CAGR of 1% in 2019, with some annual volatility. In the first half of 2020, provisions rose significantly due to the adoption of a new accounting method and the coronavirus-related crisis. Further, non-performing assets also disappointed with a five-year CAGR of 1.3% in 2019, with the rising trend continuing in the first half of 2020. Therefore, continuation of such trend will likely to continue to impact bottom-line expansion in the coming period.
- ▼ M&T Bank has substantial exposure to commercial and real estate construction loans. As of Jun 30, 2020, the company's exposure to the loan portfolio was approximately 59% of the total loans. Such high exposure to commercial loans depicts lack of diversification which can be risky for the company amid challenging economy and competitive markets.
- ▼ The stock seems overvalued when compared with the broader industry. Its current price-to-book and price-to-sales ratios are above the respective industry averages.

Consistently rising cost base due to investment in infrastructure and technology is a concern. Additionally, exposure to commercial real estate loans and deteriorating credit metrics are headwinds.

## Last Earnings Report

### M&T Bank Q2 Earnings Miss Estimates on Lower Revenues

M&T Bank has reported second-quarter 2020 negative earnings surprise of 7.9% on higher provisions. Net operating earnings per share of \$1.76 missed the Zacks Consensus Estimate of \$1.91. The bottom line also compares unfavorably with the \$3.37 per share reported in the year-ago quarter.

The company's results were impacted by a substantial rise in provisions related to the adoption of the accounting method of Current Expected Credit Losses and the coronavirus crisis. Moreover, revenues disappointed on lower rates and decline in fee income. However, prudent expense management was visible. Moreover, rise in loan and deposit balances highlights a strong capital position.

Net income (on GAAP basis) for the quarter was \$241 million or \$1.74 per share compared with the \$473 million or \$3.34 per share recorded a year ago.

Quarter Ending 06/2020

Report Date	Jul 23, 2020
Sales Surprise	-2.02%
EPS Surprise	-7.85%
Quarterly EPS	1.76
Annual EPS (TTM)	10.78

### Revenues Decline, Loans Rise, Expenses Down

M&T Bank's revenues were \$1.45 billion, down 7.1% from the year-ago quarter. Also, it lagged the consensus estimate of \$1.47 billion. Taxable-equivalent net interest income declined 8% year over year to \$961 million in the quarter. This fall stemmed from lower net interest margin, partially offset by higher average earning assets (up 15%). Net interest margin contracted 78 basis points (bps) to 3.13%.

The company's non-interest income was \$487 million, down 5% year over year. Lower service charges on deposit accounts, brokerage services income, trading account and foreign exchange gains, along with other non-interest income, primarily resulted in this decline. These were partly offset by higher trust income and mortgage banking revenues.

Non-interest expenses totaled \$807 million, down 8% from the prior-year quarter. Excluding certain non-operating items, non-interest operating expenses were \$803 million, down 7.5% year over year. This decline mainly stemmed from lower advertising and marketing costs, reduced amortization of core deposit and other intangible assets, along with other costs.

Efficiency ratio was 55.7%, down from the 56% recorded in the prior-year quarter. A lower ratio indicates a rise in profitability.

Loans and leases, net of unearned discount, were \$97.8 billion at the end of the reported quarter, up 3.9% from the prior quarter. Also, total deposits rose 14.8% to \$115 billion.

M&T Bank's net operating income displays an annualized rate of return on average tangible assets and average tangible common shareholder equity of 0.74% and 9.04%, respectively, compared with the 1.68% and 18.83% recorded in the prior-year quarter.

### Deteriorating Credit Quality

For M&T Bank, credit metrics deteriorated during the second quarter. Provision for credit losses rose significantly on a year-over-year basis to \$325 million. Also, net charge-offs of loans were \$71 million, up 61.4%.

The ratio of non-accrual loans to total net loans was 1.18%, up 22 bps year over year. Non-performing assets increased 30% to \$1.22 billion.

### Capital Position

M&T Bank's estimated Common Equity Tier 1 to risk-weighted assets under regulatory capital rules were 9.51%. Tangible equity per share was \$78.62, up 7.3% year over year from \$73.29 as of Jun 30, 2019.

### Outlook for 2020

Management expects average LIBOR in the third quarter to fall a little further along with deposit rates. Given all factors, the margin is likely to improve slightly.

Average PPP loans are likely to increase from the \$4.8 billion average in the current quarter toward the \$6.5 billion outstanding as of Jun 30.

Commercial loan growth, which is to say excluding PPP loans, has slowed, and management expects those balances to remain flat to slightly down over the remainder of 2020 compared with the level at the end of the second quarter. In a normal environment, a seasonal slowdown in inventories and a corresponding decline in floor plan loan balances during the third quarter are anticipated. Residential real estate loans are likely to keep witnessing a measured pace of runoff as the vast majority of loans are originated for sale.

Some improvement in growth of consumer loans is expected compared with the second quarter as recent indirect originations are on the balance sheet for a full quarter.

Outlook for net interest income is dependent on the eventual resolution of the PPP loans. While management expects net interest income to improve in the third quarter on a sequential basis, the rate of improvement is also heavily dependent on the pace of forgiveness or prepayments on the PPP loans.

Waivers of money market mutual fund management fees are likely to continue to impact trust income, while the zero-interest rate environment persists.

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Management expects expenses in the second half of the year to be roughly the same as the first, excluding the first-quarter seasonal salaries and benefits.

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## Recent News

### M&T Bank Announces Relationship With LPL Financial – Jul 29, 2020

M&T Bank announced that it has chosen LPL Financial, a leading retail investment advisory firm, independent broker-dealer, and registered investment advisor (RIA) custodian, to support the bank's retail brokerage and advisory business. M&T provides consumer and commercial services to clients in the Northeast and Mid-Atlantic, and currently provides a wide range of brokerage, advisory, and insurance solutions through its subsidiary, M&T Securities, Inc. The business is expected to transition to the LPL platform in the middle of 2021 and will operate under a new brand name.

"We are committed to providing the best service and financial guidance to our clients, as well as supporting growth opportunities for our advisors," said Matt McAfee, senior vice president, head of Affluent Wealth Markets. "Today, this requires ongoing investments in technology and infrastructure, alongside financial planning and investment solutions to help clients meet their long-term financial goals. After considerable consultation and assessment with clients, we decided that a long-term strategic partnership with a firm that has complementary capabilities to enhance our offerings was the best approach for our clients. LPL is able to offer superior technology at the scale and pace that will help us differentiate our services and deepen our relationships with clients."

This year, LPL has committed \$160 million to investments in technology, and the firm has grown its investment year over year. Clients will benefit from access to innovative investment solutions and an enhanced digital service experience. LPL's comprehensive support to institutional clients also includes a high-touch service experience and consultative support. Advisors and staff will have access to LPL's award-winning technology platform, offering integrated workflows and customizable capabilities to help increase efficiency, provide a better user experience, and, ultimately, afford advisors more time to focus on client relationships.

LPL will provide an enhanced advisor and client experience through their front-end systems, inclusive of upgraded financial planning tools, eDelivery and eSign capabilities for most account documents, and easy-to-access statements and performance reports.

With the plan to align with LPL to support its retail brokerage and advisory business, M&T Securities, Inc. will continue to exist as an institutional broker-dealer under M&T Bank.

## Dividend Update

On May 19, M&T Bank declared a quarterly cash dividend of \$1.10 per share on its common stock. The dividend was paid on Jun 30 to shareholders of record at the close of business on Jun 1.

## Valuation

M&T Bank's shares are down 36.6% in the year-to-date period and 28.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 33.1% and 16%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry the sector is down 16.7% and 6.8%, respectively.

The S&P 500 Index is up 3.9% in the year-to-date period and 16.3% in the past year.

The stock is currently trading at 11.32X forward 12 months earnings, which compares to 13.5X for the Zacks sub-industry, 16.66X for the Zacks sector and 22.77X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.86X and as low as 6.53X, with a 5-year median of 13.35X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$114 price target reflects 11.9X forward earnings.

The table below shows summary valuation data for MTB

Valuation Multiples - MTB					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.32	13.5	16.66	22.77
	5-Year High	19.86	14.2	16.66	22.77
	5-Year Low	6.53	8.01	11.59	15.25
	5-Year Median	13.35	11.31	14.26	17.58
P/TB TTM	Current	1.37	1.53	3.37	15.31
	5-Year High	2.86	2.68	4	15.31
	5-Year Low	1.16	1.21	2.01	5.96
	5-Year Median	2.27	2.11	3.48	9.56
P/S F12M	Current	2.37	2.82	6.22	3.66
	5-Year High	5.04	4.59	6.66	3.66
	5-Year Low	1.93	2.39	4.96	2.53
	5-Year Median	3.67	3.59	6.06	3.05

As of 08/07/2020

## Industry Analysis Zacks Industry Rank: Bottom 15% (213 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
Commerce Bancshares, Inc. (CBSH)	Neutral	3
Comerica Incorporated (CMA)	Neutral	3
Huntington Bancshares Incorporated (HBAN)	Neutral	3
KeyCorp (KEY)	Neutral	4
Regions Financial Corporation (RF)	Neutral	4
SVB Financial Group (SIVB)	Neutral	3
U.S. Bancorp (USB)	Neutral	3
Fifth Third Bancorp (FITB)	Underperform	4

Industry Comparison Industry: Banks - Major Regional				Industry Peers		
	MTB	X Industry	S&P 500	CMA	FITB	HBAN
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	D	-	-	F	C	C
Market Cap	13.80 B	33.43 B	23.30 B	5.56 B	14.56 B	9.83 B
# of Analysts	7	9	14	12	9	11
Dividend Yield	4.09%	4.09%	1.76%	6.80%	5.28%	6.21%
Value Score	C	-	-	D	C	A
Cash/Price	1.73	2.51	0.07	2.51	2.26	0.68
EV/EBITDA	-0.69	-0.69	13.32	-0.53	0.16	6.07
PEG Ratio	1.63	2.32	2.94	13.04	1.77	3.31
Price/Book (P/B)	0.94	0.85	3.19	0.75	0.71	0.93
Price/Cash Flow (P/CF)	6.37	6.53	12.51	4.43	5.62	5.55
P/E (F1)	12.24	14.40	22.02	22.43	14.60	16.30
Price/Sales (P/S)	2.08	1.90	2.53	1.59	1.58	1.80
Earnings Yield	8.33%	6.94%	4.37%	4.45%	6.85%	6.11%
Debt/Equity	0.43	0.88	0.77	0.88	0.79	0.92
Cash Flow (\$/share)	16.90	6.63	6.94	9.04	3.64	1.74
Growth Score	F	-	-	F	D	F
Hist. EPS Growth (3-5 yrs)	16.43%	10.96%	10.46%	25.58%	10.96%	8.14%
Proj. EPS Growth (F1/F0)	6,993.38%	-43.93%	-6.80%	-73.76%	489.19%	-53.33%
Curr. Cash Flow Growth	5.45%	2.66%	5.39%	-4.61%	17.50%	-4.72%
Hist. Cash Flow Growth (3-5 yrs)	11.65%	9.49%	8.55%	12.59%	6.10%	12.14%
Current Ratio	1.07	0.90	1.33	1.02	0.90	0.92
Debt/Capital	28.39%	44.79%	44.50%	45.53%	42.23%	44.20%
Net Margin	22.36%	18.16%	10.13%	17.42%	16.55%	16.27%
Return on Equity	10.22%	8.52%	14.39%	8.22%	7.37%	8.35%
Sales/Assets	0.05	0.05	0.51	0.05	0.05	0.05
Proj. Sales Growth (F1/F0)	-4.89%	-1.23%	-1.51%	-14.54%	-9.39%	1.65%
Momentum Score	B	-	-	C	A	B
Daily Price Chg	3.90%	3.42%	0.90%	4.96%	3.41%	3.87%
1 Week Price Chg	0.78%	-0.16%	0.14%	2.94%	1.64%	-3.44%
4 Week Price Chg	13.02%	12.83%	8.95%	19.82%	17.60%	19.85%
12 Week Price Chg	16.49%	20.27%	18.90%	26.81%	25.23%	25.29%
52 Week Price Chg	-29.61%	-21.91%	1.18%	-36.70%	-23.81%	-25.69%
20 Day Average Volume	821,318	5,680,953	2,057,775	1,810,119	5,944,984	9,173,882
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	18.94%	12.35%	1.36%	67.53%	12.35%	37.55%
(F1) EPS Est 12 week change	14.00%	10.49%	1.57%	56.76%	6.38%	37.26%
(Q1) EPS Est Mthly Chg	23.41%	29.63%	0.54%	57.92%	-1.49%	31.39%



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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	C
Growth Score	F
Momentum Score	B
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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### Disclosures

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