

Vail Resorts, Inc. (MTN)

\$185.68 (As of 06/17/20)

Price Target (6-12 Months): **\$195.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/18/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: C

Growth: F

Momentum: F

Summary

Shares of Vail Resorts have outperformed the industry so far this year. The company recently reported third-quarter fiscal 2020 results, wherein earnings and revenues beat the Zacks Consensus Estimate. However, the top and the bottom line declined 27.5% and 47.5%, respectively, on a year-over-year basis. Notably, coronavirus-related woes affected the company's operations during the quarter. This along with high competition and weather-related woes raise concerns. Notably, earnings estimates for 2020 have declined in the past 60 days. However, increased focus on season pass program along with reopening of Ski resorts bode well. Also, continuous efforts on digital marketing and media advertising are likely to boost traffic and sales in the coming period. The company also has enough liquidity to tide over the pandemic.

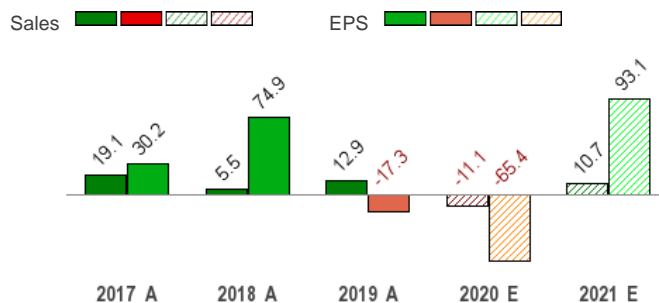
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$255.37 - \$129.52
20 Day Average Volume (sh)	472,529
Market Cap	\$7.5 B
YTD Price Change	-22.6%
Beta	1.18
Dividend / Div Yld	\$7.04 / 3.8%
Industry	Leisure and Recreation Services
Zacks Industry Rank	Bottom 42% (147 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	40.1%
Last Sales Surprise	13.3%
EPS F1 Est- 4 week change	13.1%
Expected Report Date	09/24/2020
Earnings ESP	0.0%
P/E TTM	42.6
P/E F1	71.1
PEG F1	4.7
P/S TTM	3.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	230 E	863 E	950 E	228 E	2,235 E
2020	268 A	925 A	694 A	132 E	2,019 E
2019	220 A	850 A	958 A	244 A	2,272 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$3.37 E	\$4.84 E	\$7.04 E	-\$2.88 E	\$5.04 E
2020	-\$2.23 A	\$5.07 A	\$3.74 A	-\$3.52 E	\$2.61 E
2019	-\$2.43 A	\$5.02 A	\$7.12 A	-\$2.22 A	\$7.55 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 06/17/2020. The reports text is as of 06/18/2020.

Overview

Vail Resorts, Inc. is a Delaware-based holding company founded in 1997. Its operations are carried out by several subsidiaries and are clustered into two segments namely Mountain and Lodging.

The Mountain segment (91.6% of net revenues for third-quarter fiscal 2020) operates mountain resort properties and urban ski areas as well as ancillary services like ski school, dining and retail/rental operations.

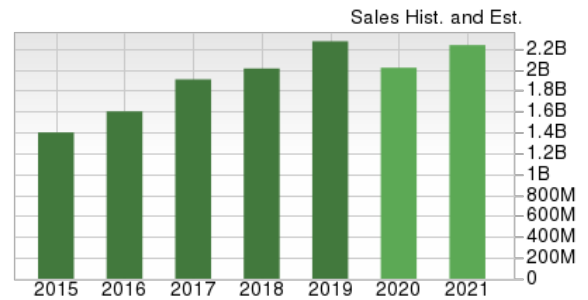
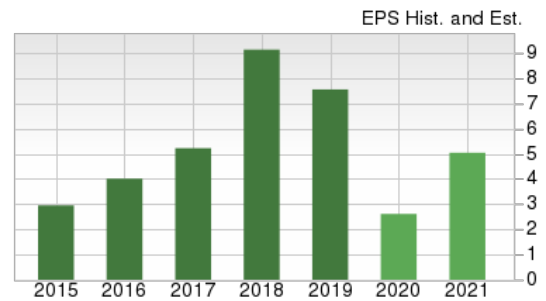
The Lodging segment (8.4%) owns and manages luxury hotels under the RockResorts brand and condominiums around mountain resorts. The segment also operates concessionaire properties like the Grand Teton Lodge Company and mountain resort golf courses.

The Real Estate segment (0.07%) owns, develops, and sells real estate in and around the company's resort communities.

Vail Resorts generates revenues from two segments — Resort (accounting for 99.9% of net revenues in third-quarter fiscal 2020) and Real Estate (0.1%). Under the Resort segment, the company has Mountain and Lodging services, and other (constituting 84% of net revenues in the fiscal third quarter), and Mountain and Lodging retail and dining (16%).

As of Jun 4, 2020, the company's Mountain segment operated 37 world-class mountain resort properties.

The company has a notable presence in Park City in Utah. It also operates resorts in the Heavenly, Northstar and Kirkwood in the Lake Tahoe area of California and Nevada.



Reasons To Buy:

▲ **Robust Season Pass Program:** Vail Resorts has a season pass program under which the company offers a variety of season pass products for all the mountain resorts and urban ski areas in both domestic, and international markets. Increased demand for skiing has led the company to witness higher season pass sales lately. Notably, pass revenues increased 17.2% in second-quarter fiscal 2020, mainly attributable to increased pass product sales for the 2019/2020 North American ski season. It introduced Epic Day Pass (EDP) in 2019, which exceeded management's expectations, with the vast majority of sales coming from new pass holders and in destination markets.

A strong season pass program, increased focus on acquisitions and mergers, along with efficient marketing efforts, bode well for Vail Resorts.

During the fiscal third quarter, the company initiated the launch of Epic Coverage to protect the interests of season pass holders. Replacing the need to purchase pass insurance, Epic Coverage offers refunds in the unlikely event of certain resort closures (due to COVID-19 outbreak) along with eligible injuries, job losses and other personal events. Notably, the company is offering it for free to all North American pass holders.

Moreover, the company is providing credits for 2019/20 North American pass holders to apply pass for 2020/21 season. The pass holders will be entitled to a minimum credit of 20% and a maximum credit of 80% toward next season's pass. The credits will be available for pass holders who purchase 2020/21 pass products by Sep 7, 2020. The company is also offering credits for Epic day pass, Edge Card and other frequency-based products that have unused days remaining. Owing to this, the company is delaying the recognition of approximately \$121 million of deferred pass revenues as well as \$3 million in related deferred costs, which are now likely to get realized in the second and third quarter of fiscal 2021. Depending on final usage of such credits, this shift in recognition will partially or fully offset the negative impact of the credits being offered to pass holders toward the purchase of 2020/21 North American pass products.

▲ **Marketing Efforts Drive Guest Loyalty:** Robust growth in the season pass sales reflects Vail Resorts' efficient guest focused marketing efforts. The company orients its strategy with data analytics to drive targeted and personalized marketing toward guests. Guest data is captured through season pass programs; e-commerce platforms, including mobile lift ticket sales; the EpicMix application and operational processes at the lift ticket windows. Additionally, Vail Resorts involves in digital marketing, and media advertising to drive traffic and sales. The company's recently introduced EDP also expanded its guest traffic.

Meanwhile, the company has spent more than \$1.2 billion over the last decade to drive guest loyalty. The company has also made significant investments in Colorado for its snowmaking systems at Vail, Beaver Creek and Keystone. Additionally, Vail Resorts has completed its full renovation of the Beaver Creek Children's Ski School facilities and the Peak eight base area at Breckenridge, with new ski school and childcare facilities. It has also completed one of its final stage of modernization project and has invested in technology to program its data-driven marketing efforts. Notably, its ability to leverage guest data, targeted digital marketing efforts, broad product offering (including the introduction of Epic Mountain Rewards) along with associated discounts is likely to benefit the company.

▲ **Geographic Diversification to Counter Weather-Related Woes:** Vail Resorts have widespread geographical boundaries. Apart from operations in the United States, the company has expanse in North America, Japan and Europe. By widely diversifying its geographical locations, Vail Resorts aims to cushion the business from weather inconsistencies. The company has also announced that it will expand 250-acre lift-served terrain in the signature McCoy Park area of Beaver Creek. It also intends to increase the seating capacity at the Rendezvous Lodge restaurant on Blackcomb Mountain, which will add 250 seats further enhancing the experience at North America's largest resort.

▲ **Focus on Acquisitions:** Vail Resorts extensively focuses on acquisitions and mergers to build a stronger portfolio of differentiated, and varied services. The company acquired a few mountain resorts, hotel properties and other businesses complementary to its own as well as developable land in proximity to its resorts. Vail Resorts had completed the acquisition of Peak Resorts for \$11 per share on Sep 24, 2019. With the completion of this buyout, the company added 17 U.S. ski areas to its portfolio. The newly acquired resorts are located in the Northeast, Mid-Atlantic and the Midwest. Currently, the company has 37 owned and operated resorts worldwide.

Moreover, On Aug 15, 2018, the company acquired Stevens Pass Resort in Washington from Ski Resort Holdings, LLC, for \$64 million. Additionally, on Sep 27, 2018, management acquired Triple Peaks, LLC, the parent company of Okemo Mountain Resort in Vermont; Crested Butte Mountain Resort in Colorado and Mount Sunapee Resort in New Hampshire for a cash price of roughly \$74 million. Vail Resorts expects these acquisitions to positively contribute to the company's operating results going ahead.

▲ **Re-openings to Drive Top Line:** With increased focus on safety protocols, management intends to be operational for the North American Summer and Australian Ski season in late June or early July. Notably, it plans to open Perisher, Falls Creek and Hotham in Australia for skiing and snowboarding on Jun 24. However, it is subject to approval by the New South Wales and Victoria governments.

▲ **Enough Liquidity to Tide Over Coronavirus Crisis:** Vail Resorts has enough liquidity to withstand the coronavirus pandemic for some time. As of May 31, 2020, the company had \$465 million of cash on hand, \$419 million of U.S. revolver availability under the Vail Holdings Credit Agreement and \$168 million of revolver availability under the Whistler Credit Agreement. Although Vail Resorts' long-term debt at the end of the fiscal third quarter stood at \$2.4 billion, the company stated that it has sufficient liquidity to fund operations for up to two years, even in case of a prolonged lockdown scenario. At the end of the third quarter, the company had a debt-to-capital ratio of 0.6, which indicates manageable debt levels.

Reasons To Sell:

- ▼ **Guidance Pulled in Response to Coronavirus Uncertainty:** As a result of coronavirus' uncertain impact on the broader U.S. travel market, particularly on Vail Resorts' operations, management has withdrawn its fiscal 2020 guidance.
- ▼ **Competition Ails:** The ski resort and lodging industries are highly competitive. There are roughly 470 ski areas in the United States that serve local, and destination guests. Resultantly, Vail Resorts face intense competition from other ski providers. Coming to the lodging industry, it is already known how an oversupply of hotels in the United States has given rise to a stiff competitive environment. Subsequently, the company faces heightened competition in its lodging business segment.
- ▼ **Overvalued Compared With Peers:** Since the leisure service providers are debt-laden, it makes sense to value them based on the EV/EBITDA (Enterprise Value/ Earnings before Interest Tax Depreciation and Amortization) ratio. This is because the valuation metric takes into account not just its equity but also the level of debt on a company's balance sheet. For capital-intensive companies, the EV/EBITDA is a better valuation metric because it is unaffected by the changing capital structures and ignores effects of non-cash expenses on a company's value. The trailing 12-month EV/EBITDA ratio of Vail Resorts is 18.44, which is overvalued compared with the industry's 6.4 and the S&P 500's 11.57.
- ▼ **Weather-Related Woes:** Vail Resorts' business is highly dependent on weather conditions. Particularly, the ski business directly depends on the amount and timing of snowfall. Unfavorable weather conditions can adversely affect skiers' visits and in turn hurt the company's revenues and profits. Unseasonably warm weather may also result in inadequate natural snowfall and reduce skiable terrain, which increases costs of snowmaking.

Coronavirus woes, high costs of operations, risks from mergers, competition and weather-related woes continue to hurt Vail Resorts.

Last Earnings Report

Vail Resorts Q3 Earnings Beat Estimates, Fall Y/Y

Vail Resorts, reported third-quarter fiscal 2020 results, wherein both the top and the bottom line beat the Zacks Consensus Estimate.

In the quarter under review, the company reported earnings of \$3.74 per share that beat the Zacks Consensus Estimate of \$2.67. However, the metric declined 47.5% from year-ago earnings of \$7.12.

Quarterly revenues came in at \$694.1 million, beating the consensus mark of \$613 million.

However, the metric fell 27.5% on a year-over-year basis. The downside can be attributed to dismal performance by the Mountain segment and Lodging segments.

Quarter Ending 04/2020

Report Date	Jun 04, 2020
Sales Surprise	13.25%
EPS Surprise	40.07%
Quarterly EPS	3.74
Annual EPS (TTM)	4.36

Segment Results

Vail Resorts generates revenues from two segments — Resort (99.9% to net revenues in third-quarter fiscal 2020) and Real Estate (0.1%). Under the Resort segment, the company has Mountain and Lodging services, and other (contributing 84% to net revenues in fiscal third quarter) as well as Mountain and Lodging retail and dining (16%).

Meanwhile, Vail Resorts has two reporting segments — Mountain and Lodging.

The Mountain segment reported revenues of \$635.3 million in the quarter under review, down 27.6% year over year due to lower visitation associated with the closure of its North American destination mountain resorts and regional ski areas because of the COVID-19 outbreak, partially offset by incremental revenues from Peak Resorts, Inc.

The segment's EBITDA amounted to \$301.4 million, down 35.6% from \$468.1 million in the prior-year quarter. However, operating expenses at the Mountain segment totaled \$333.8 million, down 18.6% year over year.

Lodging net revenues in the reported quarter were \$58.4 million, down 26.9% year over year primarily due to the closure of North American lodging properties as a result of the pandemic. Under the segment, EBITDA declined 76.8% to \$2.9 million from the prior-year quarter.

However, operating expenses at the Lodging segment contracted 17.5% year over year to \$55.5 million.

Operating Results

Vail Resorts reported EBITDA of \$304.4 million in the quarter under review compared with \$480.7 million in the prior-year quarter. The decline of \$176.4 million (36.7%) includes impacts from the deferral of \$113 million of pass product revenues and related deferred costs to fiscal 2021 for credits offered to 2019/2020 North American pass product holders; \$1.4 million of acquisition and integration-related expenses; approximately \$1 million due to unfavorable currency translation related to operations at Whistler Blackcomb and its Australian ski areas.

Resort operating expenses totaled \$389.2 million, down 18.5% year over year. Total segmental operating expenses also fell 18.5% year over year to \$390.4 million.

Balance Sheet

Cash and cash equivalents as of Apr 30, 2020, totaled \$482.7million, up from \$59.6 million in the year-ago period.

Net long-term debt amounted to \$2,365.4 million at the end of the quarter, up from \$1,310.9 million at the end of the prior-year quarter.

As of May 31, 2020, the company had total cash and revolver availability of approximately \$1.1 billion. This includes \$465 million of cash in hand, \$419 million of U.S. revolver availability under the Vail Holdings Credit Agreement and \$168 million of revolver availability under the Whistler Credit Agreement.

In April, the company announced plans to boost its liquidity by reducing its capital expenditures for 2020 by approximately \$80-\$85 million. The company also suspended cash dividends to shareholders for a minimum of two quarters, leading to an additional \$142 million of liquidity. Nonetheless, the company stated that it has sufficient liquidity to fund its operations for up to two years, even if resort shutdowns are extended.

Fiscal 2020 Guidance

Although the company expects fourth quarter or fiscal 2020 results to be negatively impacted by lower visitation to its resort properties, it will not be issuing any guidance for the same.

Recent News

Vail Resorts Suspends Dividends Due to Coronavirus Fear – Apr 1, 2020

Due to the unprecedented nature of the coronavirus outbreak situation on the global economy, Vail Resorts' Board of Directors has made the decision to suspend our quarterly cash dividend for the next two quarters, preserving over \$140 million of liquidity for its business. However, the company's previously announced dividend payment occurring on April 9, 2020, is not affected by this suspension.

To mitigate the financial impact, the company has initiated certain actions including furloughs, reduced work hours and a salary cut in the company's executive leadership team. The company also drafted plans to curb investment in capital expenditures for 2020.

Valuation

Vail Resorts shares are down 22.5% in the year-to-date period and 21.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 42.3% and 11% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 43.4% and 6.8%, respectively.

The S&P 500 index is down 3% in the year-to-date period, but up 6.8% in the past year.

The stock is currently trading at 42.59X trailing 12-month earnings, which compares to 15.98X for the Zacks sub-industry, 24.47X for the Zacks sector and 20.11X for the S&P 500 index.

Over the past five years, the stock has traded as high as 48.6X and as low as 17.02X, with a 5-year median of 38.63X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$195 price target reflects 44.82X trailing 12-month earnings.

The table below shows summary valuation data for MTN.

Valuation Multiples - MTN					
		Stock	Sub-Industry	Sector	S&P 500
P/E TTM	Current	42.59	15.98	24.47	20.11
	5-Year High	48.6	29.48	32.62	22.23
	5-Year Low	17.02	11.17	19.53	15.96
	5-Year Median	38.63	21.64	25.37	19.04
P/B TTM	Current	4.59	0.78	3	4.27
	5-Year High	7.34	1.71	5.05	4.56
	5-Year Low	3.22	0.43	2.2	2.83
	5-Year Median	5.11	1.38	4.21	3.66
EV/EBITDA TTM	Current	18.44	6.4	10.17	11.57
	5-Year High	29.76	11.38	17.62	12.85
	5-Year Low	10.29	4.74	8.29	8.25
	5-Year Median	16.59	8.82	12.23	10.82

As of 06/17/2020

Industry Analysis Zacks Industry Rank: Bottom 42% (147 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Choice Hotels International, Inc. (CHH)	Neutral	3
Camping World Holdings Inc. (CWH)	Neutral	2
Cedar Fair, L.P. (FUN)	Neutral	4
Las Vegas Sands Corp. (LVS)	Neutral	3
MGM Resorts International (MGM)	Neutral	3
Six Flags Entertainment Corporation New (SIX)	Neutral	3
Extended Stay America, Inc. (STAY)	Neutral	3
Wynn Resorts, Limited (WYNN)	Neutral	3

Industry Comparison Industry: Leisure And Recreation Services				Industry Peers		
	MTN	X Industry	S&P 500	LVS	MGM	WYNN
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	F	-	-	F	F	F
Market Cap	7.48 B	675.04 M	21.90 B	37.35 B	9.36 B	9.57 B
# of Analysts	6	3	14	5	4	6
Dividend Yield	3.79%	0.00%	1.92%	0.00%	0.05%	4.51%
Value Score	C	-	-	D	D	D
Cash/Price	0.07	0.18	0.06	0.07	0.64	0.29
EV/EBITDA	13.72	6.61	12.65	8.43	4.66	11.55
PEG Ratio	4.75	1.36	2.98	NA	NA	NA
Price/Book (P/B)	4.59	1.14	3.05	6.84	0.70	9.64
Price/Cash Flow (P/CF)	14.17	5.17	11.68	9.99	5.65	10.20
P/E (F1)	71.18	62.70	21.53	NA	NA	NA
Price/Sales (P/S)	3.51	0.79	2.31	3.14	0.78	1.62
Earnings Yield	1.41%	-11.70%	4.36%	-0.74%	-6.38%	-13.18%
Debt/Equity	1.58	0.76	0.77	2.25	1.51	11.37
Cash Flow (\$/share)	13.11	2.40	7.01	4.89	3.36	8.69
Growth Score	F	-	-	F	F	F
Hist. EPS Growth (3-5 yrs)	19.20%	13.42%	10.87%	5.16%	-1.23%	8.38%
Proj. EPS Growth (F1/F0)	-65.41%	-202.14%	-10.58%	-111.04%	-131.06%	-547.82%
Curr. Cash Flow Growth	13.43%	3.70%	5.46%	-0.77%	-1.74%	-27.48%
Hist. Cash Flow Growth (3-5 yrs)	25.66%	9.86%	8.55%	-1.30%	9.93%	-3.64%
Current Ratio	1.35	0.96	1.29	1.44	2.89	1.81
Debt/Capital	61.23%	61.23%	45.14%	69.19%	60.25%	91.92%
Net Margin	7.65%	0.61%	10.53%	17.81%	23.59%	-6.49%
Return on Equity	11.08%	2.21%	16.06%	28.49%	0.81%	-17.92%
Sales/Assets	0.43	0.53	0.55	0.53	0.35	0.43
Proj. Sales Growth (F1/F0)	-11.13%	-33.71%	-2.64%	-44.63%	-49.11%	-42.14%
Momentum Score	F	-	-	F	F	D
Daily Price Chg	-1.12%	-0.79%	-0.67%	-1.01%	-1.96%	-2.00%
1 Week Price Chg	-6.38%	-6.81%	-7.25%	-5.85%	-11.74%	-9.16%
4 Week Price Chg	-2.10%	12.72%	5.95%	-2.53%	14.97%	2.12%
12 Week Price Chg	22.03%	22.03%	23.90%	3.27%	46.49%	18.17%
52 Week Price Chg	-21.21%	-52.84%	-4.54%	-17.09%	-31.62%	-27.49%
20 Day Average Volume	472,529	295,999	2,597,851	7,393,108	33,293,270	6,230,638
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.19%
(F1) EPS Est 4 week change	13.07%	0.00%	0.00%	-33.33%	-7.19%	0.06%
(F1) EPS Est 12 week change	-43.87%	-221.41%	-14.52%	-115.11%	-1,015.84%	-982.61%
(Q1) EPS Est Mthly Chg	-9.94%	0.00%	0.00%	0.00%	-3.33%	-3.87%

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	F
Momentum Score	F
VGM Score	F

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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