

Omniceil, Inc. (OMCL)

\$70.29 (As of 08/14/20)

Price Target (6-12 Months): **\$66.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 06/23/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: C

Summary

Omniceil exited the second quarter with better-than-expected revenues and earnings miss. The top line however plunged year over year. The company recorded disappointing segmental contributions in the quarter. Contraction of both margins in the reported quarter was discouraging as well. The company's inability to provide full-year guidance this time as well raises concerns. Other headwinds like stiff competitive landscape and tough hospital spending trends persist. Over the past six months, Omniceil's shares have underperformed the industry it belongs to. However, the company's optimism about the gradual resumption of elective surgeries and some on-site sales activities in regions less impacted by the pandemic is encouraging. The improvement in Service and other revenues despite the pandemic-led business challenges is impressive.

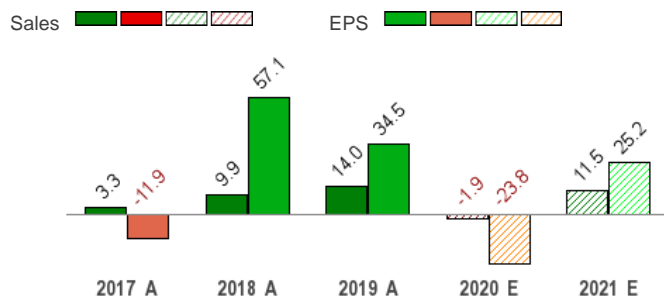
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$94.85 - \$54.24
20 Day Average Volume (sh)	280,549
Market Cap	\$3.0 B
YTD Price Change	-14.0%
Beta	1.01
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical Info Systems
Zacks Industry Rank	Bottom 27% (184 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-14.0%
Last Sales Surprise	0.5%
EPS F1 Est- 4 week change	-16.1%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	27.5
P/E F1	32.9
PEG F1	2.2
P/S TTM	3.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	246 E	236 E	234 E	266 E	981 E
2020	230 A	200 A	209 E	242 E	880 E
2019	203 A	217 A	229 A	248 A	897 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.52 E	\$0.58 E	\$0.75 E	\$0.94 E	\$2.68 E
2020	\$0.66 A	\$0.37 A	\$0.50 E	\$0.70 E	\$2.14 E
2019	\$0.61 A	\$0.67 A	\$0.76 A	\$0.77 A	\$2.81 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 08/14/2020. The reports text is as of 08/17/2020.

Overview

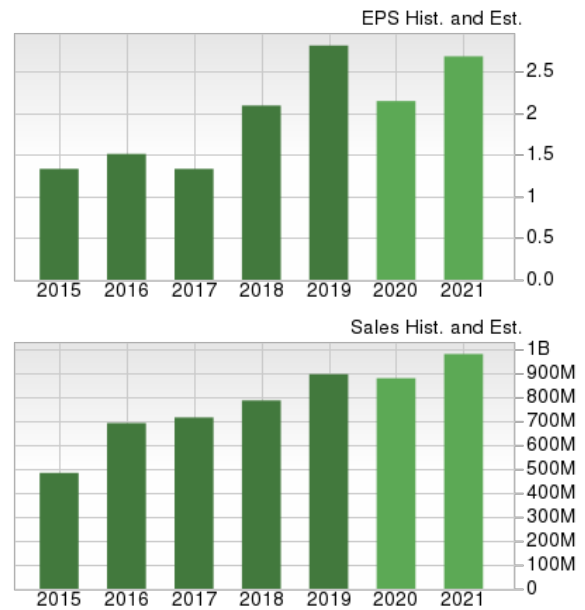
Headquartered in Mountain View, CA, Omnicell Inc., develops and markets end-to-end automation solutions for the medication-use process. These automation solutions contain medication and supply dispensing systems, central pharmacy storage, retrieval and packaging solutions, a bedside automation solution, a physician order management solution, a decision support application, and a Web-based procurement application.

The products offered by the company enable care providers to improve patient safety and increase efficiency by lowering costs. The company also adheres to regulatory compliances and addresses issues related to population health.

Omnicell previously had two reporting segments, namely Automation and Analytics, and Medication Adherence. In an effort to deliver on the vision of the autonomous pharmacy and address industry changes (including the ongoing consolidation of healthcare systems, rising pharmaceutical costs and increased scrutiny on controlled substances), Omnicell initiated a company-wide organizational realignment in the fourth quarter of 2018. It was done to centrally manage business operations, including the development and marketing of all of its products, sales and distribution, supply chain and inventory management, and regulatory and quality functions. As a result of the organizational realignment, all significant operating decisions are based upon an analysis of Omnicell as one operating segment. Thus, effective Jan 1, 2019, Omnicell reports as only one operating segment, which is the same as the reporting segment.

In 2016, Omnicell acquired Aesynt Holding, a leading player in enterprise medication management with specific products in IV compounding, Central Pharmacy automation, point of care solutions and enterprise software products.

In April 2017, Omnicell acquired InPharmics, which is an advanced pharmacy informatics solutions provider to hospital pharmacies. The buyout added clinical and compliance analytics to Omnicell's Performance Center offering.



Reasons To Sell:

- ▼ **Share Price Movement:** Over the past six months, Omnicell's shares have underperformed the industry it belongs to. The stock has lost 20% against the industry's 7.5% rise.

During the second quarter, Omnicell continued to see some delays in product bookings and expects to see lower product bookings and revenues through the rest of 2020 compared to management's expectations prior to the COVID-19 outbreak. Additionally, the company's ability to access hospitals in order to perform implementations of capital equipment has been delayed in some cases, as many hospitals are consumed with treating sick patients.

Contraction of both margins in the reported quarter was discouraging as well. The company's inability to provide full-year guidance this time as well raises concerns. Other headwinds in the form of a stiff competitive landscape and tough hospital spending trends continue to bother the company.

Increasing cost of production continues to hamper the company's margin performance. Weak Hospital Spending Trends and tough competition also pose threats.

- ▼ **Coronavirus Impact Pronounced:** The coronavirus pandemic has been wreaking havoc on the economy and the impact on Omnicell has been damaging as well. The company noted that it is witnessing significantly lower product bookings as well as slowdown in purchasing decisions by hospitals. The pandemic has impacted the company's second-quarter 2020 results with slowdown in product bookings. Shelter-in-place was enforced throughout the United States and parts of Europe, elective surgeries had been postponed and hospital systems were ramping up to treat COVID-19 patients. As a result, the company's sales teams had some difficulty engaging with customers on new bookings, also some implementations from backlog were being delayed as hospitals were consumed with treating COVID-19 patients or were preparing for a potential surge in COVID-19 patient hospital admissions. Omnicell expects to see lower product bookings and revenues through the rest of 2020 compared to management's expectations prior to the COVID-19 outbreak.

Further, since Omnicell is currently unable to gauge the scope, duration and impact of the pandemic and is also uncertain about the timing of global recovery and economic normalization, it could not provide full-year guidance this time as well.

- ▼ **Escalating Costs and Expenses:** Omnicell has adopted several strategies to drive its top line including portfolio expansion, acquisitions and further penetration in the medication adherence market. Thus, the company continues to battle escalating costs. Also, the company continues to expect higher costs in the upcoming quarters stemming from integration of new acquisitions and the expenses related to the XT series and IV workflow.

In the second quarter of 2020, the company-provided adjusted gross profit declined 16.4%. Further, adjusted gross margin contracted 440 basis points (bps) to 45%. Adjusted operating expenses in the second quarter were down 1.1% year over year. Adjusted operating profit reflected a 52.2% fall from the prior-year quarter. Adjusted operating margin in the second quarter contracted 710 bps to 7.7%.

- ▼ **Competitive Landscape:** Omnicell faces intense competition in the medication management and supply chain solutions market. Even though the company continues to gain market share from other traditional providers of medication management and supply chain solutions, major players such as Becton Dickinson/CareFusion Corporation, ARxIUM, Cerner Corporation, Talyst, Inc., Emerson Electronic Co., WaveMark Inc.

Major direct competitors in the medication packaging solutions market like Drug Package, Inc., AutoMed Technologies, Inc. (a subsidiary of ARxIUM), Manchac Technologies, LLC (through its Dosis product line) and RX Systems, Inc. still pose threats as they spearhead several expansion programs. This increased competition could result in pricing pressure and a reduced margin, which would have an adverse impact on the company's performance.

- ▼ **Tough Hospital Spending Trends:** Hospital purchases continue to remain a challenge for the small community hospitals compared with the bigger ones owing to financial constraints. This is reflected in the data provided by the company, which suggests that 70% of small hospitals in the United States deploy automated dispensing cabinets versus 96% and 99% for medium and large hospitals, respectively.

The hospitals continue to remain cautious with respect to capital spending in the current economic environment. Thus, a resilient hospital capital expenditure environment might adversely affect the adoption of Omnicell's solutions. Moreover, the reimbursement mix has also affected the endowments income, further affecting hospital spending capabilities. While the company has won some new deals in larger hospitals, the market is still susceptible to the economy and credit conditions.

Risks

- **Product Innovation Driving Growth:** Omnicell is progressing well with its 3-legged strategy that covers market expansion through delivery of differentiated, innovative solutions; expansion into new markets, primarily outside the United States; and expansion through strategic partnerships and acquisition of new technologies.

The first leg of differentiated products continues to track new customers who adopt G4 platform, Omnicell's analytics tools and medication adherence solutions. In recent times, the company is witnessing strong new conversion wins for its new XT series. As of Mar 31, approximately 24% of the company's existing installed base of previous generations for automated dispensing cabinets have placed orders to upgrade to the new XT Series.

The company is making concerted efforts to consolidate medication management, with support from the autonomous pharmacy vision. The company is currently progressing toward the advancement of its vision of autonomous pharmacy.

Omnicell's XT Automated Dispensing Cabinets, showcased in April 2019, are enhancing workflow efficiency, medication accountability and patient safety through the latest hardware technology and software features. The company's Patient Engagement platform helps guide and track patient interactions. It also enables pharmacists to deliver interventions more effectively to help improve medication use.

- **Autonomous Pharmacy Model Holds Potential:** Omnicell has an elaborate vision for the Autonomous Pharmacy. Per management, the Autonomous Pharmacy vision integrates a comprehensive set of solutions across three key segments — automation solutions (designed to digitize and streamline workflows), intelligence (provides actionable insights to better understand medication usage and improve pharmacy supply chain management) and automation of medication dispensing workflows (includes expert services as an extension of pharmacy operations).

As a major milestone in this niche, Omnicell recently introduced fully Autonomous Pharmacy, Omnicell One, which will be available from August. Leveraging cloud-based data and predictive prescriptive analytics, Omnicell One provides real-time visibility with actionable insights and workflow optimization recommendations that will help improve clinical, financial and operational outcomes across the pharmacy supply chain. As a result of COVID-19, many of Omnicell customers have prioritized supply chain optimization in order to provide critical care to patients. Omnicell One represents a significant step toward leveraging analytics that enable these customers to meet demand in an efficient manner.

- **Planned Geographic Expansion another Upside:** Outside the United States, the healthcare providers are becoming increasingly aware of the benefits of automation. Additionally, there is a substantial demand for adherence packaging equipment outside the domestic market. Many government and private entities are aware of the progress made over the last several years in the United States and are investing significantly in information technology and automation. Given the fact that the international market is less than 1% penetrated with very few hospitals adopting medication control systems, Omnicell has specified its second leg of strategies of expanding into new markets.

This strategy so far, is driving significant growth in the Non-Acute Care segment of Omnicell. While the company continues to focus on the Middle East, and South Africa, it sees greater adoption of technologies in other parts of the world, like Australia, U.K., parts of Asia, Germany and France. In this line, in the second quarter, the company announced a new software partnership with the West Yorkshire Association of Acute Trust, an innovative collaboration of NHS Trust across West Yorkshire and Harrogate and the United Kingdom.

- **Strategic Acquisitions and Partnerships Add Value:** The third leg of acquisition and partnerships is also progressing successfully. In August, Omnicell announced the acquisition of Pharmaceutical Strategies Group's 340B Link Technology Solutions business. The acquisition will add a comprehensive and differentiated suite of software-enabled services and solutions to Omnicell to manage compliance. Additionally, the buyout will help Omnicell to tap into the federal 340B Drug Pricing Program. Among other important buyouts of recent times, alliances with Fairview Health Services and Geisinger, are expected to boost the company's portfolio. Other health care centers to have adopted Omnicell's technology include Duke University Hospital and Atrium Health in North Carolina; Cooper University Health Care in New Jersey; Benefis Health System in Montana; Renown Health in Nevada; and Allegheny General Hospital in Pittsburgh, PA (part of the Allegheny Health Network).

- **Strong Liquidity, Solvency and Capital Structure:** Omnicell exited the second quarter of 2020 with cash and cash equivalents of \$134 million compared with \$104 million at the end of the first quarter. Meanwhile, the company finished the quarter with no debt on its balance sheet indicating strong solvency position.

The company's cash flow trend also remains robust. Cumulative net cash provided by operating activities at the end of the second quarter was \$48 million and free cash flow was \$28 million (after net capital expenditures of approximately \$20 million). This compares with the year-ago operating cash flow of \$27 million and free cash flow of \$12 million (net capital expenditures were \$15 million, in the year-ago quarter).

Last Earnings Report

Omniceil Q2 Earnings Miss, Margins Down

Omniceil reported second-quarter 2020 adjusted earnings per share (EPS) of 37 cents, down 44.8% year over year. The metric lagged the Zacks Consensus Estimate by 13.9%.

The adjustments include expenses related to share-based compensation, amortization of acquired intangibles, and severance and other.

On a GAAP basis, loss per share was 10 cents for the quarter under review compared with EPS of 37 cents in the year-ago quarter.

Quarter Ending 06/2020

Report Date	Jul 28, 2020
Sales Surprise	0.50%
EPS Surprise	-13.95%
Quarterly EPS	0.37
Annual EPS (TTM)	2.56

Revenues in Detail

Second-quarter revenues of \$199.6 million dropped 8.2% year over year on a reported basis (same on adjusted basis). The figure, however, beat the Zacks Consensus Estimate by 0.5%.

Segmental Details

On a segmental basis, Product revenues fell 12.3% year over year to \$138.9 million in the reported quarter.

Service and other revenues climbed 2.8% year over year to \$60.7 million.

With regard to COVID-19 impact on the company's business, Omniceil noted that it has continued to see a delay in product bookings and expects this slowdown to continue along with the declining revenue trend through the year. However, the company is upbeat about the gradually changing environment, which is recording favorable impact with respect to both product bookings and revenues. Further, the overall level of system implementations is rising.

Additionally, through the second quarter, the company's scope to access hospitals in order to implement capital equipment has been delayed in many cases, as many hospitals are used for treating coronavirus patients.

Operational Update

In the quarter under review, the company-provided adjusted gross profit declined 16.4% to \$89.9 million. Further, adjusted gross margin contracted 440 basis points (bps) to 45%.

Adjusted operating expenses were \$74.5 million in the second quarter, down 1.1% year over year. Adjusted operating profit totaled \$15.4 million, reflecting a 52.2% fall from the prior-year quarter. Adjusted operating margin in the second quarter contracted 710 bps to 7.7%.

Financial Update

Omniceil exited the second quarter with cash and cash equivalents, and net accounts receivable and unbilled receivables of \$322.5 million compared with \$337.1 million at the end of the first quarter of 2020.

Cumulative cash flow from operating activities at the end of the second quarter was \$72.7 million compared with \$53.8 million a year ago.

Guidance

Omniceil is currently unable to gauge the scope, duration and impact of the pandemic and is also uncertain about the timing of global recovery and economic normalization. This time, too, the company was unable to provide the full-year guidance.

However, the company expects third-quarter 2020 adjusted product revenues at \$143-\$149 million and adjusted service revenues within \$61-\$63 million.

Adjusted EPS is expected within 44-52 cents for the third quarter. The Zacks Consensus Estimate for the same is currently pegged at 73 cents.

Given the gradually improving business environment, Omniceil anticipates sequential product bookings and revenue growth through the third quarter of 2020. However, management expects disruptions for hospital spending and access for implementations to continue in the near- to medium-term.

Recent News

Software-Enabled Service Business Acquisition: Aug 12, 2020

OmniceLL announced that, has entered into a definitive agreement with Pharmaceutical Strategies Group (PSG) to acquire its 340B Link business for total aggregate cash consideration of \$225 million, subject to customary adjustments.

Valuation

OmniceLL shares are down 14% in the year to date period and down 0.7% in the trailing 12-month periods. Stocks in the Zacks sub-industry are up 18% while the Zacks Medical sector grew 0.4% in the year to date period. Over the past year, the Zacks sub-industry is up 19.1% and sector is up 7.6%.

The S&P 500 index is up 4.5% in the year to date period and up 15.4% in the past year.

The stock is currently trading at 3.2X Forward 12-months sales, which compares to 3.2X for the Zacks sub-industry, 2.8X for the Zacks sector and 3.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 4.1X and as low as 1.3X, with a 5-year median 2.4X. Our Underperform recommendation indicates that the stock will perform below the market. Our \$66 price target reflects 2.9X forward 12-months sales.

The table below shows summary valuation data for OMCL.

Valuation Multiples - OMCL					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	3.19	3.17	2.81	3.7
	5-Year High	4.1	3.17	3.41	3.7
	5-Year Low	1.26	1.61	2.22	2.53
	5-Year Median	2.38	2.3	2.89	3.05
P/B TTM	Current	3.39	3.88	3.76	4.52
	5-Year High	4.47	3.96	4.42	4.56
	5-Year Low	2.75	2.26	2.94	3.03
	5-Year Median	3.31	3.35	3.31	4.15
EV/EBITDA F12M	Current	16.37	13.64	9.5	12.87
	5-Year High	22.19	13.64	11.47	14.23
	5-Year Low	7.36	6.58	8.1	9.05
	5-Year Median	15.15	8.25	10.06	11.02

As of 08/14/2020

Industry Analysis Zacks Industry Rank: Bottom 27% (184 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Becton, Dickinson and Company (BDX)	Neutral	3
Cardinal Health, Inc. (CAH)	Neutral	3
Cerner Corporation (CERN)	Neutral	3
International Business Machines Corporation (IBM)	Neutral	4
McKesson Corporation (MCK)	Neutral	3
Oracle Corporation (ORCL)	Neutral	3
Baxter International Inc. (BAX)	Underperform	5
Allscripts Healthcare Solutions, Inc. (MDRX)	Underperform	3

Industry Comparison Industry: Medical Info Systems				Industry Peers		
	OMCL	X Industry	S&P 500	BDX	IBM	MDRX
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	5	-	-	3	4	3
VGM Score	B	-	-	C	B	A
Market Cap	3.01 B	244.03 M	23.68 B	74.84 B	111.56 B	1.51 B
# of Analysts	3	5	14	12	6	14
Dividend Yield	0.00%	0.00%	1.68%	1.22%	5.20%	0.00%
Value Score	C	-	-	C	A	B
Cash/Price	0.05	0.08	0.07	0.04	0.13	0.14
EV/EBITDA	19.85	-1.31	13.36	21.86	8.69	22.51
PEG Ratio	2.15	2.20	2.99	3.17	3.45	1.65
Price/Book (P/B)	3.39	3.55	3.22	3.12	5.39	1.21
Price/Cash Flow (P/CF)	18.40	17.96	12.82	12.43	6.34	4.51
P/E (F1)	32.32	19.19	22.06	25.86	11.31	14.88
Price/Sales (P/S)	3.32	4.09	2.51	4.42	1.48	0.88
Earnings Yield	3.04%	-1.73%	4.30%	3.87%	8.84%	6.70%
Debt/Equity	0.00	0.16	0.77	0.71	2.68	0.62
Cash Flow (\$/share)	3.82	-0.06	6.94	20.77	19.75	2.06
Growth Score	A	-	-	B	C	B
Hist. EPS Growth (3-5 yrs)	29.72%	7.28%	10.41%	10.16%	-3.28%	7.28%
Proj. EPS Growth (F1/F0)	-23.73%	-2.48%	-6.32%	-14.53%	-13.54%	-7.14%
Curr. Cash Flow Growth	38.80%	10.02%	5.20%	14.64%	2.09%	9.89%
Hist. Cash Flow Growth (3-5 yrs)	22.49%	10.24%	8.55%	24.86%	-3.76%	10.24%
Current Ratio	1.97	1.96	1.33	1.45	1.04	0.78
Debt/Capital	0.00%	19.67%	44.59%	41.57%	72.83%	38.15%
Net Margin	5.42%	-15.18%	10.13%	5.30%	10.44%	-3.06%
Return on Equity	9.21%	-18.63%	14.51%	14.19%	51.06%	5.55%
Sales/Assets	0.73	0.53	0.51	0.32	0.50	0.53
Proj. Sales Growth (F1/F0)	-1.90%	0.61%	-1.43%	-2.67%	-4.43%	-4.87%
Momentum Score	C	-	-	F	B	B
Daily Price Chg	-2.01%	-1.98%	0.12%	-1.59%	0.19%	0.22%
1 Week Price Chg	-2.42%	0.64%	2.30%	-8.86%	1.64%	2.72%
4 Week Price Chg	6.45%	0.00%	4.41%	-2.60%	1.02%	29.15%
12 Week Price Chg	8.93%	10.47%	13.66%	8.05%	5.16%	41.59%
52 Week Price Chg	0.46%	-3.32%	5.80%	4.80%	-5.04%	5.71%
20 Day Average Volume	280,549	438,454	1,984,154	1,281,792	4,930,312	1,720,385
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.19%	0.00%	0.00%
(F1) EPS Est 4 week change	-16.14%	0.56%	2.08%	-4.46%	-1.66%	6.02%
(F1) EPS Est 12 week change	-26.17%	0.44%	2.66%	-6.20%	-1.88%	1.09%
(Q1) EPS Est Mthly Chg	-45.61%	2.90%	0.94%	-16.35%	-6.63%	-0.48%

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	A
Momentum Score	C
VGM Score	B

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

Disclosures

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