

Childrens Place, Inc. (PLCE)

\$70.18 (As of 02/18/20)

Price Target (6-12 Months): **\$74.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/19/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: C

Summary

Shares of Children's Place have declined and underperformed the industry in the past six months. Notably, the company posted mixed third-quarter fiscal 2019 results, wherein earnings beat estimates but sales lagged the same. Also, earnings continued to decline year over year. Results were hurt by soft sales, owing to weak traffic, transactions and conversions in the third quarter. Moreover, weak margins in the past few quarters have been a concern. Further, the company provided soft view for fourth-quarter fiscal 2019 due to weaker-than-planned mall traffic. Based on soft fourth-quarter view, it also slashed its guidance for fiscal 2019. However, Children's Place's multi-year growth initiatives, comprising product, alternate channels of distribution, digital transformation, fleet optimization and international expansion, bode well.

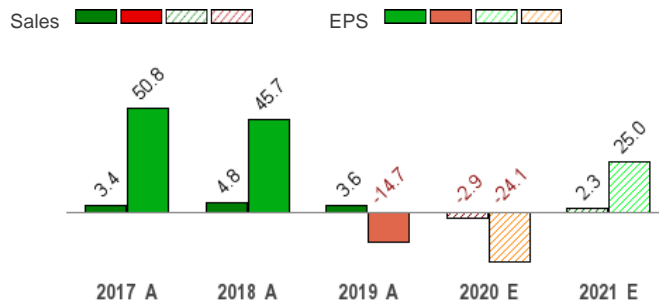
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$116.84 - \$53.62
20 Day Average Volume (sh)	431,282
Market Cap	\$1.1 B
YTD Price Change	12.3%
Beta	0.72
Dividend / Div Yld	\$2.24 / 3.2%
Industry	Retail - Apparel and Shoes
Zacks Industry Rank	Top 30% (76 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.3%
Last Sales Surprise	-1.8%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	03/02/2020
Earnings ESP	-1.9%
P/E TTM	15.0
P/E F1	11.0
PEG F1	1.4
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	426 E	433 E	535 E	545 E	1,926 E
2020	412 A	420 A	525 A	515 E	1,882 E
2019	436 A	449 A	523 A	531 A	1,938 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.83 E	\$0.43 E	\$3.45 E	\$2.01 E	\$6.40 E
2020	\$0.36 A	\$0.19 A	\$3.03 A	\$1.57 E	\$5.12 E
2019	\$1.87 A	\$0.70 A	\$3.07 A	\$1.10 A	\$6.75 A

*Quarterly figures may not add up to annual.

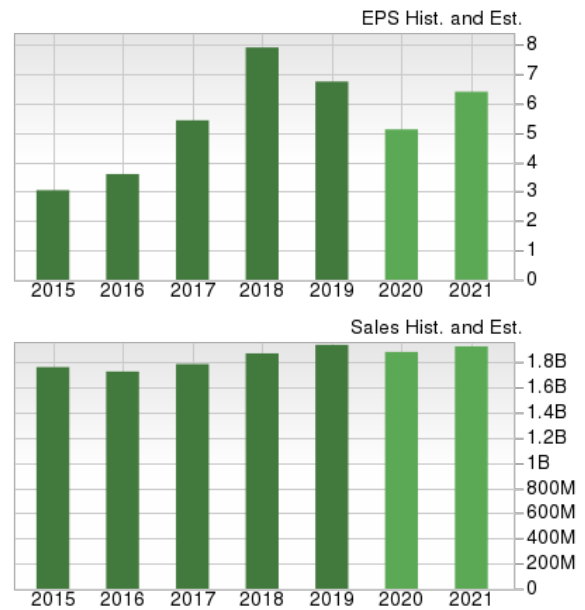
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/18/2020. The reports text is as of 02/19/2020.

Overview

Based in Secaucus, NJ, The Children's Place, Inc. (PLCE) is a pure-play children's specialty apparel retailer. The company sells apparel, footwear, accessories and other items for children; and designs, contracts to manufacture, and sells merchandise under the brand names "The Children's Place", "Place" and "Baby Place". It operates through two segments — The Children's Place U.S. and The Children's Place International.

The Children's Place U.S. comprises stores in the United States and Puerto Rico and revenues from United States-based wholesale business. The Children's Place International (accounted for the rest) consists of Canada-based stores as well as revenues from the company's Canada wholesale business and international franchisees.

As of Nov 2, there were 955 stores across the United States, Canada and Puerto Rico as well as the e-commerce business at www.childrensplace.com in the United States and Canada. The company also has 260 international points of distribution in 19 countries, open and operated by eight franchise partners.



Reasons To Buy:

▲ **Strategic Initiatives:** Children's Place is leaving no stone unturned to improve its top-line performance and expand customer base. In an effort to provide a hassle-free shopping experience, the company is focusing on digital transformation. It entered into an Asset Purchase Agreement with Gymboree Group, Inc. and related entities to buy intellectual property assets of Gymboree and Crazy 8 (the "Gymboree Assets") for \$76 million. Additionally, the company is on track to relaunch this iconic brand in early 2020 with an enhanced and personalized, online shopping experience at gymboree.com. Also, the brand is expected to have more than 200 shop-in-shop locations in certain Children's Place stores across the United States and Canada.

The company is presently focusing on digital transformation, fleet optimization and international expansion. It has been undertaking shareholder friendly moves from time to time.

Recently, the company showcased spring 2020 Gymboree collections at a media event supporting the relaunch of the brand. It received positive response along with appreciation from Gymboree fans. Apart from this, the company expects to continue gaining traction from the abandoned Crazy 8 and Gymboree customers.

▲ **Digital Endeavors:** The company had delivered customer database and rolled out Wi-Fi, "BOPIS" (Buy Online, Pick Up in Store), Ship from Store, mobile POS to all its U.S. stores. Further, it launched SMS texting capabilities and implemented everyday free shipping with no minimum purchase. Children's Place has rolled out "BOSS" (Buy Online, Ship to Store) in the second quarter of fiscal 2019, the response of which appears to be encouraging. The company is developing a new state-of-the-art pricing and promotional system as well as a new state-of-the-art loyalty system. Its relationship with Amazon is also progressing well. E-commerce penetration surged 650 basis points to 35% of net sales during the third quarter of fiscal 2019. E-commerce penetration is now projected to increase to 31% of net sales from approximately 28% in the prior year. Earlier, the company had projected e-commerce penetration to increase to more than 30% of net sales.

▲ **International Expansion:** The company is taking steps not only to gain traction in the U.S. market but also expand globally. This is evident from its license agreement with Zhejiang Semir Garment Co. Ltd ("Semir") for the Greater China market, which covers Mainland China, Taiwan, Hong Kong and Macau. Semir is the parent company of Balabala, one of the prominent names in China's specialty children's apparel retail industry. In collaboration with Semir, the company plans to open roughly 15 stores in fiscal 2019.

▲ **Fleet Optimization:** The company's store fleet optimization plan focuses on striking the right balance between digital and physical stores. As part of store fleet optimization endeavors, the company opened six stores and closed 12 in third-quarter fiscal 2019, thereby ending the quarter with 955 stores. The six stores opened in the reported quarter are in sync with its target of opening about 25 stores in highly productive centers in the next two years. Year to date, the company opened 10 stores that were highly productive centers. Further, it has closed 238 stores since 2013, while it closed nearly 27 stores till the end of the third quarter of fiscal 2019.

In fact, it is on track to close about 300 stores by 2020 as part of the program. Moreover, it now plans to close around 60 stores in fiscal 2019 compared with the previous plan of closure of 40-45 stores. This will bring the total store closure count to 271 toward the company's plan to close 300 stores by the end of 2020. The company has also planned 1000 lease renewals over the next three years. As pointed earlier, this fleet optimization initiative will help Children's Place to achieve a 200-basis point improvement in operating margin from 2013 to 2020. In this regard, three stores have been opened year to date.

▲ **Returning More to Shareholders:** Children's Place has been consistently enhancing shareholders' return through dividend payouts and share repurchases. Since 2014, the company paid out \$118 million worth dividends till the end of the second quarter of fiscal 2019. During March 2019, the company hiked its quarterly dividend by 12% to 56 cents a share. In fiscal 2018, the company made share buybacks worth \$255 million. Since 2009, it has repurchased shares worth \$1.2 billion. We note that at the end of the third quarter of fiscal 2019, \$146 million was remaining under the existing share buyback program. During the third quarter, the company bought back 414,000 shares for roughly \$33 million and paid out quarterly dividend worth nearly \$9 million. The company is on track to repurchase shares worth \$500 million between 2018 and 2020.

Reasons To Sell:

▼ **Dismal Y/Y Performance, Stock Down:** Children's Place reported mixed third-quarter fiscal 2019 results, wherein earnings beat estimates, but sales lagged the same. This marked the second straight quarter of sales miss. Notably, the company's sales were impacted by warmer weather into late October compared with last year. As a result, it witnessed decline in store traffic, transactions and conversions in the third quarter. The company's seasonal carryover inventory declined in double-digit at the end of the fiscal third quarter. Also, earnings declined on a year-over-year basis while sales improved.

The company provided a soft view for fourth-quarter fiscal 2019 due to weaker-than-planned mall traffic so far in the year. Based on the soft fourth-quarter guidance, the company slashed its view for fiscal 2019. We note that shares of this company have lost 9.5% in the past six months, against the industry's gain of 16.9%.

The company's dismal year-over-year performance and weak margin trend are concerns. Also, it provided soft view for fourth quarter and slashed its earnings view for fiscal 2019.

▼ **FY19 View Still Not Encouraging:** The company now envisions net sales of \$1,862-\$1,867 million for fiscal 2019 compared with \$1,910-\$1,925 million guided previously. The guidance is also lower than sales of \$1,938.1 million reported in fiscal 2018. The company forecasted comparable retail sales to decrease around 3%. Earlier, the company had guided comparable retail sales to be flat with the fiscal 2018 level.

The company now anticipates adjusted earnings to be \$5.00-\$5.20 per share for fiscal 2019 compared with \$5.40-\$5.75 stated earlier. This also indicates a decline from earnings of \$6.75 reported in fiscal 2018. The guidance includes an impact of nearly 13 cents from the recently implemented tariffs.

For fourth-quarter fiscal 2019, the company expects net sales of \$504-\$509 million. Comparable retail sales are expected to decrease in mid-single digits compared with the prior-year period.

▼ **Margins Remain Under Pressure:** Children's Place has been grappling with dismal margins for a while now. In the third quarter, adjusted operating margin contracted 40 basis points to 12.1% of net sales. Prior to this, operating margin shrank 210 basis points and 420 basis points in the second and first quarters of fiscal 2019, respectively. Meanwhile, adjusted gross margin contracted 130 basis points to 37.8%, owing to increased penetration of ecommerce business, which is a lower-margin business.

For fiscal 2019, it envisions adjusted operating margin of 5.7-5.9% compared with the prior guidance of 6.1-6.4%. The company recorded 6.6% in fiscal 2018. For fourth quarter, adjusted operating margin is projected to be 6.1-6.8%.

▼ **Stiff Competition May Hurt Results:** The children's apparel, footwear, and accessories retail landscape has been witnessing a sea of change with the focus gradually shifting to online shopping. The company faces stiff competition from bigwigs like Target, J.C. Penney and Kohl's in specialty stores and mass merchandising industry. Further, it faces competition from department stores as well as other discount stores such as Walmart. We believe that unhealthy price competition to gain market share and drive footfall might weigh on the company's results.

Last Earnings Report

Children's Place Beats on Q3 Earnings, View Soft

The Children's Place, Inc. reported mixed third-quarter fiscal 2019 results, wherein earnings beat estimates but sales lagged the same. However, the company's earnings declined on a year-over-year basis while sales improved. Further, it provided soft view for fourth-quarter fiscal 2019 due to weaker-than-planned mall traffic so far in the year. Based on the soft fourth-quarter guidance, the company slashed its view for fiscal 2019.

Though the company's bottom line beat estimates in the reported quarter, investors were not pleased with bleak view for fiscal 2019.

Quarter Ending **10/2019**

Report Date	Dec 11, 2019
Sales Surprise	-1.76%
EPS Surprise	0.33%
Quarterly EPS	3.03
Annual EPS (TTM)	4.68

A Look at Guidance

The company now envisions net sales of \$1,862-\$1,867 million compared with \$1,910-\$1,925 million guided previously. The guidance is also lower than sales of \$1,938.1 million reported in fiscal 2018.

The company forecast comparable retail sales to decrease around 3%. Earlier, it had guided comparable retail sales to be flat with the fiscal 2018 level. E-commerce penetration is now projected to increase to 31% of net sales from approximately 28% in the prior year. Further, it envisions adjusted operating margin of 5.7-5.9% compared with the prior guidance of 6.1-6.4%. The company recorded 6.6% in fiscal 2018.

The company now anticipates adjusted earnings to be \$5.00-\$5.20 per share for fiscal 2019 compared with \$5.40-\$5.75 stated earlier. This indicates a decline from earnings of \$6.75 reported in fiscal 2018. The guidance includes an impact of nearly 13 cents from the recently implemented tariffs.

For fourth-quarter fiscal 2019, the company expects net sales of \$504-\$509 million. Comparable retail sales are expected to decrease in mid single digit compared with the prior-year period. Meanwhile, adjusted operating margin is projected to be 6.1-6.8%.

Adjusted earnings are anticipated to be \$1.48-\$1.68 in the fiscal fourth quarter, suggesting growth from \$1.10 in the prior-year period.

Q3 Details

The children's specialty apparel retailer reported adjusted earnings of \$3.03 a share, outpacing the Zacks Consensus Estimate of \$3.02. However, the bottom line declined 1.3% from the year-ago period's figure of \$3.07. This marked the company's second straight quarter of earnings beat.

Children's Place generated net sales of \$524.8 million that lagged the Zacks Consensus Estimate of \$534.2 million, marking the second consecutive quarter of miss. Nevertheless, the company's top line inched up 0.4% on a year-over-year basis. The increase in net sales was driven by 0.8% increase in comparable retail sales. However, comparable retail sales came below its guided range of 3-4%.

Comparable retail sales increased 1.2% in the United States while the same declined 2.8% in Canada. E-commerce penetration improved 650 basis points to 35% of net sales in the quarter under review.

Following a strong back-to-school season, the company's sales were impacted by warmer weather into late October compared with last year. As a result, the company witnessed decline in store traffic, transactions and conversions in the third quarter. Its seasonal carryover inventory declined in double digit at the end of the fiscal third quarter.

Coming back to the reported quarter's results, adjusted gross profit was \$198.1 million, down 3.1% year over year. Meanwhile, adjusted gross margin contracted 130 basis points to 37.8%, owing to increased penetration of ecommerce business, which is a lower-margin business.

Adjusted SG&A expenses fell 4.4% from the year-ago period to \$116.6 million while as a percentage of net sales, the same decreased 110 basis points to 22.2%. The decrease in SG&A expenses primarily resulted from better expense management and lower incentive compensations.

Adjusted operating income was \$63.4 million, down from \$65.5 million reported a year ago, while adjusted operating margin shriveled 40 basis points to 12.1% of net sales.

Store Update

As part of store fleet optimization endeavors, the company opened six stores and closed 12 in third-quarter fiscal 2019, thereby ending the quarter with 955 stores. The six stores opened in the reported quarter are in sync with its target of opening about 25 stores in highly productive centers in the next two years. Year to date, the company opened 10 stores that were highly productive centers.

Since the announcement of the store fleet optimization program in 2013, it has shuttered 238 stores. In fact, the company is on track to close about 300 stores by 2020 as part of the program. Further, it has closed nearly 27 stores year to date. Moreover, it now plans to close around 60 stores in 2019 compared with the previous plan of closure of 40-45 stores.

Additionally, its international franchise partners opened 34 net new points of distribution in third-quarter fiscal 2019. Consequently, the company had 260 international points of distribution open and operated by its eight franchise partners in 19 countries, as of Nov 2, 2019.

Other Financial Details

Children's Place ended the quarter under review with cash and cash equivalents of \$66.1 million compared with \$93 million a year ago. The company exited the quarter with inventories of \$389.8 million, up 3.4% year over year. Shareholders' equity totaled \$254.4 million as of Nov 2,

2019. Management incurred capital expenditure of about \$21 million in the reported quarter. Further, the company now expects capital spending of approximately \$60-\$65 million in fiscal 2019 compared with the prior view of \$65-\$75 million.

During the fiscal third quarter, the company bought back 414 thousand shares for roughly \$33 million and paid out a quarterly dividend worth nearly \$9 million. As of Nov 2, 2019, it had about \$146 million remaining under existing share repurchase program.

Concurrent to the earnings release, it also declared a quarterly cash dividend of 56 cents per share, which is payable Dec 27 to shareholders of record as of Dec 16.

Plans for Gymboree

With respect to Gymboree, Children's Place is on track to relaunch this iconic brand in early 2020 with an enhanced, personalized, online shopping experience at gymboree.com, and with over 200 shop-in-shop locations in selected The Children's Place stores across the United States and Canada.

Recently, the company showcased spring 2020 Gymboree collections at a media event supporting the relaunch of the brand. It received positive response along with appreciation from Gymboree fans. Apart from this, the company expects to continue gaining traction from the abandoned Crazy 8 and Gymboree customers.

Recent News

Iconic Gymboree Brand to be Relaunched – Jan 29, 2020

Children's Place announced that Gymboree will relaunch in February 2020 on an enhanced website, Gymboree.com, and in shop-in-shop locations in over 200 select The Children's Place stores in the U.S. and Canada.

Children's Place Declares Dividend – Dec 11, 2019

Children's Place announced a quarterly cash dividend of 56 cents per share, which is paid on Dec 27 to shareholders of record as of Dec 16.

Valuation

Children's Place shares are up 12.2% in the year-to-date period but down 21.1% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 1.2% and 6.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry are down 23.7% but the sector is up 20.4%.

The S&P 500 index is up 4.9% in the year-to-date period and 22.8% in the past year.

The stock is currently trading at 10.8X forward 12-month earnings, which compares to 12.12X for the Zacks sub-industry, 26.22X for the Zacks sector and 19.3X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.4X and as low as 7.62X, with a 5-year median of 15.53X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$74 price target reflects 11.39 earnings.

The table below shows summary valuation data for PLCE

Valuation Multiples - PLCE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.8	12.12	26.22	19.3
	5-Year High	20.4	18.38	26.22	19.34
	5-Year Low	7.62	10.23	19.07	15.18
	5-Year Median	15.53	14.24	22.99	17.47
P/S F12M	Current	0.55	0.6	1.09	3.57
	5-Year High	1.48	1.34	1.11	3.57
	5-Year Low	0.43	0.54	0.8	2.54
	5-Year Median	0.85	0.81	0.92	3
EV/EBITDA TTM	Current	9.72	8.8	15.89	12.31
	5-Year High	13.74	8.9	15.89	12.85
	5-Year Low	4.95	4.71	10.79	8.47
	5-Year Median	7.56	6.74	12.41	10.7

As of 02/18/2020

Industry Analysis Zacks Industry Rank: Top 30% (76 out of 255)



Top Peers

Buckle, Inc. (The) (BKE)	Outperform
Chicos FAS, Inc. (CHS)	Outperform
Guess?, Inc. (GES)	Outperform
American Eagle Outfitters, Inc. (AEO)	Neutral
Abercrombie & Fitch Company (ANF)	Neutral
Boot Barn Holdings, Inc. (BOOT)	Neutral
The Gap, Inc. (GPS)	Neutral
Urban Outfitters, Inc. (URBN)	Underperform

Industry Comparison Industry: Retail - Apparel And Shoes				Industry Peers		
	PLCE Neutral	X Industry	S&P 500	ANF Neutral	BOOT Neutral	CHS Outperform
VGM Score	A	-	-	B	A	D
Market Cap	1.06 B	835.76 M	24.50 B	1.06 B	944.28 M	476.85 M
# of Analysts	5	3	13	10	4	5
Dividend Yield	3.19%	0.00%	1.78%	4.74%	0.00%	8.71%
Value Score	A	-	-	A	A	B
Cash/Price	0.06	0.13	0.04	0.38	0.05	0.26
EV/EBITDA	7.31	7.50	14.25	7.48	13.74	7.22
PEG Ratio	1.37	1.31	2.08	0.91	1.05	13.40
Price/Book (P/B)	4.29	1.64	3.28	1.07	2.99	0.88
Price/Cash Flow (P/CF)	6.24	6.07	13.68	4.70	16.61	3.88
P/E (F1)	10.97	12.68	19.12	13.81	17.86	201.00
Price/Sales (P/S)	0.56	0.51	2.67	0.29	1.11	0.23
Earnings Yield	9.12%	7.83%	5.23%	7.23%	5.61%	0.50%
Debt/Equity	1.30	1.04	0.70	1.48	0.83	1.15
Cash Flow (\$/share)	11.26	1.51	6.93	3.59	1.98	1.04
Growth Score	B	-	-	F	A	F
Hist. EPS Growth (3-5 yrs)	17.16%	-0.69%	10.84%	-3.52%	18.95%	-28.91%
Proj. EPS Growth (F1/F0)	25.03%	9.38%	7.11%	81.58%	36.11%	129.41%
Curr. Cash Flow Growth	-13.90%	9.92%	7.81%	8.78%	49.02%	-29.00%
Hist. Cash Flow Growth (3-5 yrs)	5.54%	-0.29%	8.25%	-7.00%	27.11%	-16.86%
Current Ratio	0.78	1.50	1.24	1.41	1.23	1.09
Debt/Capital	56.58%	51.30%	42.37%	59.75%	45.46%	53.51%
Net Margin	3.23%	2.74%	11.76%	1.52%	5.99%	-1.23%
Return on Equity	26.84%	10.96%	16.86%	5.30%	17.37%	-1.37%
Sales/Assets	1.64	1.33	0.55	1.13	1.07	1.37
Proj. Sales Growth (F1/F0)	2.37%	2.46%	4.05%	1.98%	12.06%	-1.15%
Momentum Score	C	-	-	B	C	B
Daily Price Chg	1.28%	-0.79%	-0.38%	-2.65%	-1.20%	-2.43%
1 Week Price Chg	4.65%	0.00%	1.65%	4.39%	-7.00%	4.83%
4 Week Price Chg	11.86%	-1.92%	0.39%	-1.92%	-24.81%	-4.51%
12 Week Price Chg	-1.49%	-1.34%	4.84%	6.10%	-19.89%	-15.72%
52 Week Price Chg	-23.35%	-14.04%	14.99%	-18.42%	15.32%	-30.81%
20 Day Average Volume	431,282	234,819	1,996,897	1,605,739	1,145,849	1,928,162
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.22%	0.00%	-0.01%	0.00%	-0.56%	0.00%
(F1) EPS Est 12 week change	-14.50%	0.00%	-0.21%	-3.40%	0.06%	120.41%
(Q1) EPS Est Mthly Chg	15.12%	0.00%	-0.26%	0.00%	-3.20%	0.00%

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	A
Growth Score	B
Momentum Score	C
VGM Score	A

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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