

## Ross Stores, Inc. (ROST)

**\$92.83** (As of 03/13/20)

Price Target (6-12 Months): **\$97.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 02/13/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:C

Value: C

Growth: A

Momentum: D

### Summary

Shares of Ross Stores have underperformed the industry year to date on a cautious view for the first quarter and fiscal 2020 as well as the potential threats from the coronavirus outbreak. However, the company remains on track with its initiatives and boasts a robust surprise trend. Its earnings and sales outpaced the Zacks Consensus Estimate in fourth-quarter fiscal 2019 and grew year over year. Results gained from favorable comps and higher operating margin. Strength across categories has been aiding the company's comps in the past few quarters. Moreover, its commitment toward pricing, merchandise initiatives, cost containment and store expansion bodes well. Nevertheless, it expects that the ongoing pressure on merchandise gross margin due to tariffs and slight deleverage of expenses will hurt operating margin.

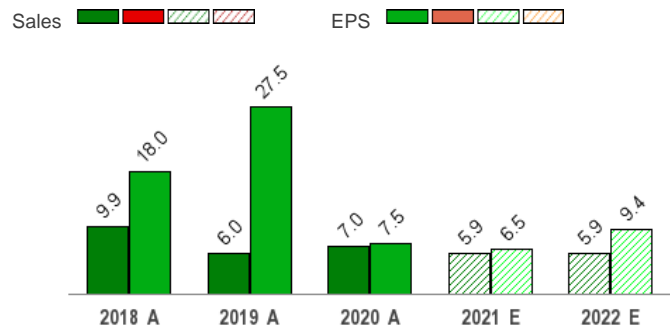
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$124.16 - \$78.31
20 Day Average Volume (sh)	2,765,933
Market Cap	\$33.3 B
YTD Price Change	-20.3%
Beta	0.71
Dividend / Div Yld	\$1.14 / 1.1%
Industry	<a href="#">Retail - Discount Stores</a>
Zacks Industry Rank	Bottom 18% (208 out of 253)

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



Last EPS Surprise	1.6%
Last Sales Surprise	1.1%
EPS F1 Est- 4 week change	-1.5%
Expected Report Date	NA
Earnings ESP	-0.1%

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					17,986 E
2021	4,031 E	4,214 E	4,071 E	4,679 E	16,984 E
2020	3,797 A	3,980 A	3,849 A	4,413 A	16,039 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.29 E	\$1.33 E	\$1.19 E	\$1.47 E	\$5.34 E
2021	\$1.21 E	\$1.23 E	\$1.10 E	\$1.35 E	\$4.88 E
2020	\$1.13 A	\$1.14 A	\$1.03 A	\$1.28 A	\$4.58 A

\*Quarterly figures may not add up to annual.

P/E TTM	20.3
P/E F1	19.0
PEG F1	1.8
P/S TTM	2.1

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/13/2020. The reports text is as of 03/16/2020.

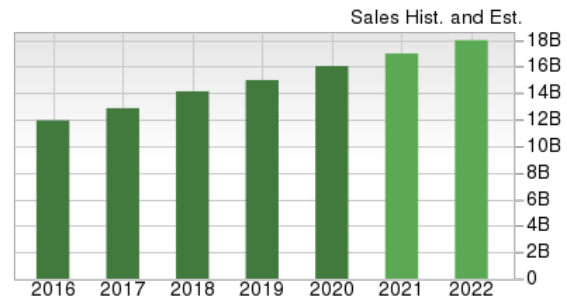
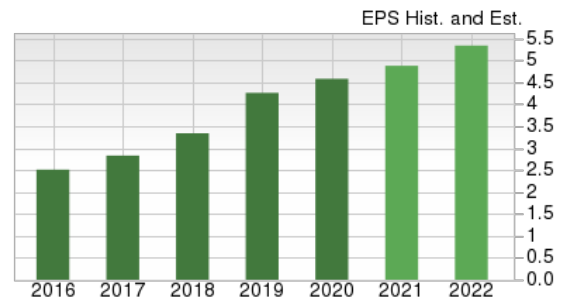
## Overview

Based in Dublin, CA, Ross Stores Inc. operates as an off-price retailer of apparel and home accessories, primarily in the United States. The company operates its stores under the Ross Dress for Less (Ross) and dd's DISCOUNTS names. The company's stores are located mostly in community and neighborhood shopping centers in heavily populated urban and suburban areas.

Ross Stores primarily offers in-season, branded, and designer apparel, footwear, accessories and other home-related merchandise for everyone in the family. This format primarily targets middle-income households. Prices offered at Ross are generally 20% to 60% below the regular prices of most department and specialty stores.

**dd's DISCOUNTS** features more moderately-priced first-quality, in-season, name brand apparel, accessories, footwear, and home fashions for the entire family. These stores target moderate-income households. The dd's DISCOUNTS stores offer products at a 20% to 70% lesser price than the moderate department and discount stores.

As of Mar 9, 2020, Ross Stores operated 1,831 outlets, including 1,565 Ross Dress for Less stores and 266 dd's DISCOUNTS stores.



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## Reasons To Buy:

▲ **Robust Q4 Earnings & Sales:** Ross Stores boasts a positive surprise trend, which continued in fourth-quarter fiscal 2019. Notably, the company's top and bottom lines surpassed the Zacks Consensus Estimate. This marks the third straight quarter of positive earnings and sales surprise. Further, earnings and sales improved on a year-over-year basis. Additionally, earnings and sales improved year over year on favorable comparable store sales (comps) and higher operating margin. Notably, operating margin of 13.3% expanded 10 basis points (bps) and was slightly better than the company's guidance of 13-13.2%. Operating margin primarily benefited from better merchandise margin and higher sales.

Ross Stores is displaying a robust comps trend in the past few quarters on strong performance across categories and regions. Comps rose 4% in fourth-quarter fiscal 2019 on higher traffic and basket size.

▲ **Solid Comps Trend:** Ross Stores has been witnessing a robust comps trend over the past few quarters mainly on improved performance across categories and geographic regions. Notably, comps improved 4%, driven by higher traffic and increased average basket size. Comps also outpaced the company's guidance of 1-2%. Further, comps gained from strength in the children's category and the Midwest region. Also, sales trends in the ladies business continued to improve in the quarter. Moreover, the company benefited from strong customer response for merchandise in dd's DISCOUNTS stores, which aided the top line and operating profit. For first-quarter and fiscal 2020, it anticipates comps growth of 1-2%.

▲ **Off-Price Model to Drive Growth:** Ross operates a chain of off-price retail apparel and home accessories stores, which target value-conscious men and women, aged 25 to 54 in middle-to-upper middle class households. The decisions of the company, from merchandising, purchasing and pricing to the location of stores are made keeping in mind the customer base. The company has a proven business model as the competitive bargains it offers continue to make its stores attractive destinations for customers in all economic scenarios. Moreover, the off-price model offers strong value proposition and micro-merchandising that drive better product allocation and margins. Further, solid execution of the off-price strategy should boost top and bottom lines.

▲ **Store Expansion Plan:** Ross Stores has consistent with the execution of its store expansion plans over the years. The company's store expansion efforts are focused on continually increasing penetration in the existing as well as new markets. The company opened 26 stores across nine different states in February and March. These included 19 Ross and seven dd's DISCOUNTS stores. The store openings are part of the company's plans to add about 28 stores, including 21 Ross and seven dd's DISCOUNTS, in first-quarter fiscal 2020. Furthermore, the first round of store openings keeps it on track for the target of inaugurating 100 stores in fiscal 2020 — including 75 Ross and 25 dd's DISCOUNTS outlets. The target does not include plans to close or relocate 10 existing stores. The company currently operates 1,831 Ross stores and dd's DISCOUNTS stores across 39 states, the District of Columbia, and Guam. Over the long term, it expects to expand the Ross chain of stores to 2,400 locations alongside operating about 600 dd's DISCOUNTS stores.

▲ **Shareholder-Friendly Moves:** Ross Stores has a track record of returning value to shareholders from time to time in the form of dividends and share repurchases. In fourth-quarter fiscal 2019, the company repurchased 2.7 million shares for \$309 million. This brings the total share repurchases in fiscal 2019 to 12.3 million for \$1,275 million. With this, the company reached the mid-point of the current share repurchase authorization of \$2.55 billion. In fiscal 2020, it expects to complete the aforementioned share repurchase authorization by buying back the remaining \$1.275 billion worth of shares. Concurrent to the earnings release, Ross Stores raised its quarterly dividend rate to 28.5 cents per share, reflecting a 12% increase from the prior rate of 25.5 cents. The raised dividend is payable Mar 31 to shareholders of record as of Mar 17. These shareholder-friendly moves not only underscore Ross's solid financial status but also reflect management's commitment toward enhancing shareholder's return.

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## Reasons To Sell:

- ▼ **Stock Appears Overvalued:** Considering price-to-earnings (P/E) ratio, Ross Stores looks pretty overvalued compared with the market at large. The stock has a trailing 12-month P/E ratio of 20.3x compared with 16.9x for the S&P 500. Its trailing 12-month P/E ratio is below the median level of 24.6x and the high level of 27.1x.
- ▼ **View Cautious, Stock Underperforms:** Despite a strong fourth quarter, Ross Stores provided a cautious view for the first quarter and fiscal 2020 due to its strong year-over-year comparisons as well as the ongoing uncertain macro-economic, political and retail environments. For fiscal 2020, the company expects earnings per share of \$4.67-\$4.88, reflecting ongoing pressure from tariffs. Notably, it reported \$4.63 earnings per share in fiscal 2019. For the first quarter of fiscal 2020, the company anticipates earnings per share of \$1.16-\$1.21, whereas it earned \$1.15 in the year-ago period. Moreover, it expects a 4-5% increase in total sales for the first quarter and fiscal 2020, with comps growth of 1-2%. Backed by the cautious view and the potential threats from the coronavirus outbreak, the company's shares have lost 20.3% year to date compared with the industry's decline of 10.6%.
- ▼ **Coronavirus Threat:** Ross Stores stated that its guidance does not account for the potential impacts of the outbreak of coronavirus on its results. However, the company warned investors that the highly uncertain supply-chain disruptions in China might hurt its performance. Furthermore, it remains concerned about the negative effects on the U.S. consumer demand if the virus spreads more.
- ▼ **Higher Costs Remain a Headwind:** Though Ross Stores reported strong top and bottom-line numbers in fourth-quarter fiscal 2019, higher costs continued to partly offset growth. Cost of goods sold (COGS) rose 7.8% and expanded 10 bps as a percentage of sales due to a 45-bps increase in distribution expenses and a 5-bps decline in merchandise margins. This was partly offset by lower buying costs of 10 bps, and leverage in freight and occupancy expenses of 5 bps each. Higher distribution costs were attributed to the unfavorable timing of packaway-related expenses and higher wages. Meanwhile, merchandise margins were affected by some pressure from tariffs. Selling, general and administrative expenses rose 4.5% year over year.  
  
Going forward, the company expects that the ongoing pressure on merchandise gross margin due to tariffs and slight deleverage of expenses on the comps growth outlook will hurt operating margin. Consequently, it expects operating margin of 13-13.2% for fiscal 2020, whereas it reported 13.4% in fiscal 2019. For the first quarter of fiscal 2020, it expects operating margin of 13.6-13.8%, whereas it reported 14.1% in the prior-year quarter.
- ▼ **Competitive Pressure:** Ross operates in a highly fragmented retail apparel market and faces intense competition from other well-established department stores, specialty stores, discount stores, warehouse stores, other off-price retailers, and manufacturer-owned outlet stores. Many of the company's competitors have larger number of stores, greater market presence, more brand recognition and financial resources that may make it difficult for the company to compete.

Ross Stores expects that the ongoing pressure on merchandise gross margin due to tariffs and slight deleverage of expenses on the comps growth outlook will hurt operating margin.

## Last Earnings Report

### Ross Stores Q4 Earnings Beat Estimates

Ross Stores reported robust fourth-quarter fiscal 2019 results, wherein the top and bottom lines surpassed the Zacks Consensus Estimate. This marks the third straight quarter of positive earnings and sales surprise. Further, earnings and sales improved on a year-over-year basis. However, the company provided a cautious view for the first quarter and fiscal 2020 on strong year-over-year comparisons as well as the ongoing uncertain macro-economic, political and retail environments.

Quarter Ending 01/2020

Report Date	Mar 03, 2020
Sales Surprise	1.05%
EPS Surprise	1.59%
Quarterly EPS	1.28
Annual EPS (TTM)	4.58

Ross Stores stated that its guidance does not account for the potential impacts of the outbreak of coronavirus on its results. However, the company warned investors that the highly uncertain supply-chain disruptions in China might hurt its performance. Furthermore, it remains concerned about the negative effects on the U.S. consumer demand if the virus spreads more.

### Q4 Highlights

Ross Stores posted earnings of \$1.28 per share, which beat the Zacks Consensus Estimate of \$1.26 and surpassed its guidance of \$1.20-\$1.25. Further, earnings grew 7% from \$1.20 per share reported in the prior-year period.

Total sales rose 7.4% to \$4,413.4 million and also surpassed the Zacks Consensus Estimate of \$4,372 million. Comparable-store sales (comps) improved 4%, driven by higher traffic and increased average basket size. Comps also outpaced the company's guidance of 1-2%. Comps gained from strength in the children's category and the Midwest region. Also, sales trends in the ladies business continued to improve in the quarter. Further, the company benefited from strong customer response for merchandise in dd's DISCOUNTS stores, which aided the top line and operating profit.

Cost of goods sold ("COGS") rose 7.8% to \$3,224.2 million. As a percentage of sales, COGS grew 30 bps due to higher distribution expenses of 45 bps and a decline in merchandise margins of 5 bps, which were offset by lower buying costs of 10 bps, and leverage in freight and occupancy expenses of 5 bps each. Higher distribution costs were attributed to the unfavorable timing of packaway-related expenses and higher wages. Meanwhile, merchandise margins were affected by some pressure from tariffs.

Selling, general and administrative expenses increased 4.5% to \$601.9 million. As a percentage of sales, SG&A expenses decreased 40 bps on lower incentive bonus and other miscellaneous costs. Operating margin of 13.3% expanded 10 bps and was slightly better than the company's guidance of 13-13.2%. Operating margin primarily benefited from better merchandise margin and higher sales.

### Store Update

As of Feb 1, 2020, Ross Stores operated 1,805 outlets, including 1,546 Ross Dress for Less stores and 259 dd's DISCOUNTS stores. In fiscal 2020, the company expects to open 100 stores, comprising 75 Ross and 25 dd's DISCOUNTS. This does not include its plans to close or relocate 10 older stores. In first-quarter fiscal 2020, the company plans to open 28 stores, including 21 Ross and seven dd's DISCOUNTS.

### Financials

Ross Stores ended fiscal 2019 with cash and cash equivalents of \$1,351.2 million, long-term debt of \$312.9 million, and total shareholders' equity of \$3,359.2 million. In the reported quarter, the company repurchased 2.7 million shares for \$309 million. This brings the total share repurchases in fiscal 2019 to 12.3 million for \$1,275 million. With this, the company reached the mid-point of its current share repurchase authorization of \$2.55 billion. In fiscal 2020, it expects to complete the aforementioned share repurchase authorization by buying back the remaining \$1.275 billion worth of shares.

Concurrent to the earnings release, Ross Stores raised its quarterly dividend rate to 28.5 cents per share, reflecting a 12% increase from the prior rate of 25.5 cents. The raised dividend is payable Mar 31 to shareholders of record as of Mar 17.

### Guidance

For fiscal 2020, the company expects earnings per share of \$4.67-\$4.88, reflecting ongoing pressure from tariffs. Notably, it reported \$4.63 earnings per share in fiscal 2019. The Zacks Consensus Estimates for earnings is pegged at \$4.94.

The company expects a 4-5% increase in total sales for fiscal 2020, with comps growth of 1-2%. Operating margin is projected at 13-13.2%, whereas it reported 13.4% in fiscal 2019. The decline in operating margin mainly reflects ongoing pressure on merchandise gross margin due to tariffs and slight deleverage of expenses based on the comps growth outlook. Moreover, the company estimates net interest income of \$8 million for fiscal 2020, with a tax rate of 24%. It also projects capital expenditure of \$730 million for the fiscal year.

For the first quarter of fiscal 2020, the company anticipates earnings per share of \$1.16-\$1.21, whereas it earned \$1.15 in the year-ago period. The Zacks Consensus Estimates for first-quarter earnings is pegged at \$1.24. Moreover, the company expects a 4-5% improvement in total sales, with comps growth of 1-2%. It expects operating margin of 13.6-13.8%, whereas it reported 14.1% in the prior-year quarter. Moreover, the company estimates net interest income of \$2 million for the fiscal first quarter, with a tax rate of 23%.

## Recent News

### Ross Stores Opens 26 Outlets, On Track With FY20 Target – Mar 9, 2020

Ross Stores has been consistent with the execution of its store expansion plans over the years. In sync with this, the company opened 26 stores across nine different states in February and March. These included 19 Ross and seven dd's DISCOUNTS stores. The store openings are part of the company's plans to add about 28 stores, including 21 Ross and seven dd's DISCOUNTS in first-quarter fiscal 2020.

Furthermore, the first round of store openings keeps it on track for the target of inaugurating 100 stores in fiscal 2020 — including 75 Ross and 25 dd's DISCOUNTS outlets. The target does not include plans to close or relocate 10 existing stores.

## Valuation

Ross Stores shares are down 20.3% in the year-to-date period but up 1.9% for the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are down 10.6% and 11.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 14.7% but the sector is down 3%.

The S&P 500 index is down 15.8% in the year-to-date period and 5.1% in the past year.

The stock is currently trading at 18.82X forward 12-month earnings, which compares to 21.12X for the Zacks sub-industry, 22.06X for the Zacks sector and 15.74X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.95X and as low as 16.18X, with a 5-year median of 20.66X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$97 price target reflects 19.67X forward 12-month earnings.

The table below shows summary valuation data for ROST

Valuation Multiples - ROST					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.82	21.12	22.06	15.74
	5-Year High	25.95	23.75	26.2	19.34
	5-Year Low	16.18	17.95	19.07	15.18
	5-Year Median	20.66	20.07	23.01	17.42
P/S F12M	Current	1.95	1.24	0.91	2.9
	5-Year High	2.66	1.39	1.11	3.44
	5-Year Low	1.46	0.95	0.8	2.54
	5-Year Median	1.93	1.13	0.92	3
EV/EBITDA TTM	Current	14.3	17.21	13.75	10.05
	5-Year High	18.98	19.83	16.23	12.87
	5-Year Low	9.1	10.89	10.82	8.31
	5-Year Median	12.52	13.8	12.49	10.78

As of 03/13/2020

## Industry Analysis Zacks Industry Rank: Bottom 18% (208 out of 253)



## Top Peers

Burlington Stores, Inc. (BURL)	Neutral
Costco Wholesale Corporation (COST)	Neutral
Dollar General Corporation (DG)	Neutral
Dollar Tree, Inc. (DLTR)	Neutral
Target Corporation (TGT)	Neutral
The TJX Companies, Inc. (TJX)	Neutral
Walmart Inc. (WMT)	Neutral
Big Lots, Inc. (BIG)	Underperform

Industry Comparison Industry: Retail - Discount Stores				Industry Peers		
	ROST Neutral	X Industry	S&P 500	DG Neutral	DLTR Neutral	TJX Neutral
<b>VGM Score</b>	<b>C</b>	-	-	<b>B</b>	<b>B</b>	<b>B</b>
Market Cap	33.32 B	15.06 B	19.05 B	37.12 B	17.68 B	62.05 B
# of Analysts	13	11	13	24	10	13
Dividend Yield	1.10%	0.87%	2.31%	0.88%	0.00%	1.78%
<b>Value Score</b>	<b>C</b>	-	-	<b>C</b>	<b>C</b>	<b>C</b>
Cash/Price	0.04	0.04	0.05	0.01	0.03	0.05
EV/EBITDA	14.71	13.88	11.57	18.52	11.52	13.04
PEG Ratio	1.56	1.69	1.68	1.66	1.41	1.71
Price/Book (P/B)	9.92	4.94	2.56	5.54	2.83	10.43
Price/Cash Flow (P/CF)	16.62	12.56	10.18	16.56	8.42	14.99
P/E (F1)	16.19	18.58	14.94	19.57	14.90	18.13
Price/Sales (P/S)	2.08	0.75	2.02	1.34	0.75	1.49
Earnings Yield	5.26%	5.26%	6.67%	5.11%	6.71%	5.51%
Debt/Equity	0.87	1.46	0.70	1.60	1.36	1.69
Cash Flow (\$/share)	5.59	6.37	7.01	8.80	8.87	3.44
<b>Growth Score</b>	<b>A</b>	-	-	<b>A</b>	<b>B</b>	<b>A</b>
Hist. EPS Growth (3-5 yrs)	17.31%	12.09%	10.85%	13.32%	18.69%	11.85%
Proj. EPS Growth (F1/F0)	6.50%	7.78%	5.99%	10.70%	5.32%	6.54%
Curr. Cash Flow Growth	4.53%	10.26%	6.15%	9.68%	-55.39%	19.07%
Hist. Cash Flow Growth (3-5 yrs)	11.61%	7.86%	8.52%	8.34%	19.78%	7.38%
Current Ratio	1.27	1.19	1.24	1.14	1.20	1.24
Debt/Capital	46.53%	59.24%	42.57%	61.55%	57.61%	62.83%
Net Margin	10.36%	4.38%	11.64%	6.17%	3.50%	7.84%
Return on Equity	50.11%	24.73%	16.74%	26.04%	19.71%	59.70%
Sales/Assets	1.74	1.76	0.54	1.25	1.21	1.78
Proj. Sales Growth (F1/F0)	5.89%	4.78%	3.54%	7.71%	3.66%	6.03%
<b>Momentum Score</b>	<b>D</b>	-	-	<b>C</b>	<b>C</b>	<b>D</b>
Daily Price Chg	1.62%	5.28%	8.21%	2.70%	6.18%	4.48%
1 Week Price Chg	-5.76%	-1.33%	-0.67%	5.38%	-3.36%	-2.07%
4 Week Price Chg	-23.03%	-20.82%	-22.67%	-8.78%	-16.32%	-18.61%
12 Week Price Chg	-19.39%	-19.14%	-20.46%	-7.13%	-18.89%	-14.41%
52 Week Price Chg	4.02%	-12.99%	-10.79%	30.61%	-25.78%	-1.02%
20 Day Average Volume	2,765,933	2,443,901	3,061,271	2,478,469	3,448,133	8,518,609
(F1) EPS Est 1 week change	0.04%	0.00%	0.00%	-0.54%	0.13%	0.00%
(F1) EPS Est 4 week change	-1.48%	-0.32%	-0.32%	-0.32%	-3.90%	-0.26%
(F1) EPS Est 12 week change	-1.38%	-0.46%	-0.65%	-0.20%	-3.94%	-0.16%
(Q1) EPS Est Mthly Chg	-2.42%	-1.44%	-0.62%	0.04%	-13.77%	-1.44%

## 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	D
VGM Score	C

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

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