

Shopify Inc. (SHOP)

\$971.99 (As of 08/11/20)

Price Target (6-12 Months): **\$1,117.00**

Long Term: 6-12 Months

Zacks Recommendation: **Outperform**

(Since: 07/29/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: F

Growth: A

Momentum: A

Summary

Shopify delivered stellar first-quarter results driven by coronavirus crisis-induced e-commerce boom. The top line benefited from robust growth in the number of merchants. Increased buying of essentials due to COVID-19 induced lockdowns and social distancing norms aided growth. Moreover, robust performance of Shopify Shipping, Shopify Payments and Shopify Capital are key catalysts. Furthermore, solid uptake of new merchant-friendly applications amid evolving retail environment, bodes well. Additionally, partnerships with Walmart and Facebook are expected to expand merchant base. Initiatives aimed at international expansion are noteworthy. Notably, shares of Shopify have outperformed the industry on a year-to-date basis. However, higher investments on product development and fulfillment platform are likely to limit margin expansion in the near term.

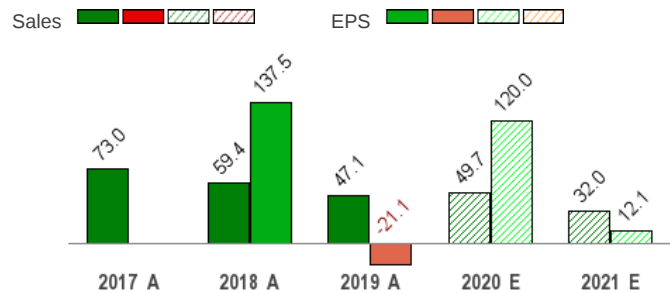
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$1,107.92 - \$282.08
20 Day Average Volume (sh)	2,592,452
Market Cap	\$114.0 B
YTD Price Change	144.5%
Beta	1.58
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Services
Zacks Industry Rank	Top 47% (118 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	10,400.0%
Last Sales Surprise	40.7%
EPS F1 Est- 4 week change	3.9%
Expected Report Date	11/03/2020
Earnings ESP	160.4%
P/E TTM	540.0
P/E F1	1,472.7
PEG F1	40.4
P/S TTM	54.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	645 E	719 E	764 E	967 E	3,117 E
2020	470 A	714 A	584 E	719 E	2,362 E
2019	320 A	362 A	391 A	505 A	1,578 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.05 E	\$0.10 E	\$0.12 E	\$0.51 E	\$0.74 E
2020	\$0.19 A	\$1.05 A	\$0.05 E	\$0.29 E	\$0.66 E
2019	\$0.09 A	\$0.14 A	\$0.13 A	\$0.43 A	\$0.30 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 08/11/2020. The reports text is as of 08/12/2020.

Overview

Ottawa, Canada-based Shopify Inc. provides a multi-tenant, cloud-based, multi-channel commerce platform for small and medium-sized businesses (SMBs). The company completed Initial Public Offering (IPO) in May 2015.

Merchants use the company's software to run business across various sales channels, including web and mobile storefronts, physical retail locations, social media storefronts, and marketplaces.

Shopify's platform enables merchants to manage products and inventory, process orders and payments, ship orders, build customer relationships and leverage analytics along with reporting from one integrated back office.

Moreover, Shopify hosts a huge database of merchant and customer interactions. Merchants leverage this transactional dataset to get meaningful insight into the sales channel growth prospects and consumer behavioral aspects. This improves their ability to target prospective customers more easily, which drives sales growth.

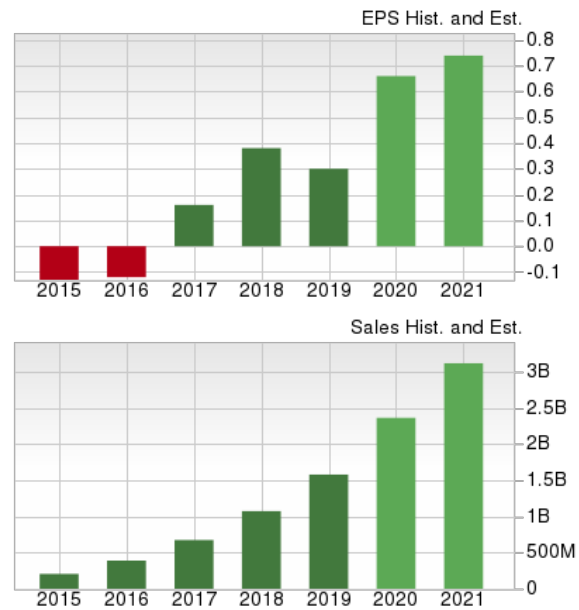
Apart from the company's own payment solution, payment wallets like Apple Pay, Google Pay is also available to the merchants, which they offer to customers for completing transaction done on the Shopify platform.

In 2019, revenues came in at \$1.578 billion. The company generates revenues from two sources: Subscriptions Solutions (40.7% of 2019 revenues) and Merchant Solutions (59.3%).

Subscription revenue is recognized on a ratable basis over the contractual term. The terms range from monthly, annual or multi-year subscription terms. The company earns revenue based on the services it delivers either directly to merchants or indirectly through resellers.

Shopify generates the majority of merchant solutions revenue from fees that it charges merchants on their customer orders processed through Shopify Payments.

The company also derives merchant solutions revenue relating to Shopify Shipping, Shopify Capital, other transaction services and referral fees, as well as from the sale of Point-of-Sale (POS) hardware.



Reasons To Buy:

- ▲ According to market research firm eMarketer, global retail e-commerce sales (excluding travel, restaurant and event ticket sales) are expected to increase to \$893.4 trillion by 2022, which will make up 14.8% of total retail spending. We believe that the massive growth in e-commerce spending bodes well for Shopify. The company's cloud-based platform is well-positioned to address the growing needs of merchants at a time when social media, mobile devices and data analytics are transforming the e-commerce market place. Moreover, COVID-19 pandemic has altered consumer spending behavior considerably and induced online store creation. Shopify is well poised to benefit from growth in the number of merchants as more of them join the platform due to COVID-19 induced shelter-in-place guidelines. Moreover, growth driven by e-commerce boom and increased buying of essentials on account of the pandemic, favors prospects.
- ▲ Shopify's biggest USP lies in the fact that it is a brand oriented platform as compared with an online marketplace. Here, the brand hogs the limelight, which helps the merchant win customer much faster through focused interaction. The platform helps in improving customer's brand loyalty, which drives merchant revenues. Further, we note that Shopify hosts a huge database of merchant and customer interactions. Merchants leverage this transactional dataset to get meaningful insight into the sales channel growth prospects and consumer behavioral aspects. This improves their ability to target prospective customers more easily, which drives sales growth. Management noted that merchants on average became more successful on Shopify, as number of merchants with GMV exceeding \$1 million grew 44% in 2019. In second-quarter 2020, GMV of \$30.1 billion surged 119% on a year-over-year basis. The company's plan to invest on leveraging this transactional data will further enhance merchant's ability to attract customers going ahead. We believe that the company's merchant focus strategy will aid it to dominate the SMB eCommerce market in the long run.
- ▲ Moreover, the company continues to add functionality to its platform, which is responsible for driving merchant base. The launch of Shopify Payments, Shipping and Capital have made it easier for merchants to process payments, ship products and secure financing for their working capital needs, respectively. Notably, the percentage of merchants using Shopify Payments grew every quarter throughout 2019. The company has introduced Shopify Payments across 15 countries to date. Moreover, merchant adoption of Shopify Shipping continues to expand in both the U.S. and Canada. Management anticipates this trend to continue as the company expands shipping partners and add new features. Further, the company recently rolled out Shopify Fulfillment Network in the United States, for the first time, to facilitate commerce. Moreover, the acquisition of 6 River Systems is anticipated to boost growth of the company's fulfillment network. Also, partnerships with Walmart and Facebook are expected to expand merchant base. We believe that its merchant focus business model will help it to achieve its growth target in the long haul.
- ▲ Notably, net new merchants on Shopify are expected to improve as newly added sales channels like Google Pay, Facebook Messenger, Instagram, Pinterest, eBay and Amazon continues to attract new merchants. Shopify noted that the addition of Houzz, Wanelo, eBates and others has driven the number of channels over which a merchant can sell to more than a dozen. The company also noted that merchants are buying more apps through app store, which is positive. Shopify app store currently offers around 4,600 apps. Moreover, availability of Apple Pay and addition of Canada Post are some other notable developments that will boost merchant base.
- ▲ Shopify has a rich partner ecosystem, which is a growth driver. The company noted that the Monthly Recurring Revenue (MRR) per merchant surged 21% year over year to \$57 million as of Jun 30, 2020, primarily on strong growth in Shopify Plus subscription base. Shopify Plus accounted for \$16.6 million, representing 29% of MRR compared with 26% in the quarter ended Jun 30, 2019. The company's plan to offer variable pricing structure under Shopify Plus is also prudent move, in our view. We also believe that the company's strong partner referral system will boost merchant base that will eventually drive top-line growth in 2020. More than 30,300 partners referred merchants to Shopify in the past 12 months.
- ▲ Mobile focus provides significant leverage to Shopify. The company launched its iPhone-based Shopify Mobile application way back in 2010. Also, the company released Shopify Ping for Apple's iOS devices, which is compatible with Facebook and Instagram ads and is enabled for Apple Business Chat. We note that Shopify is benefiting from retail's rapid transition to mobile and social sales channels. We believe that this rapid growth presents significant opportunities for Shopify in the long term. In fact, Shopify platform garnered GMV of approximately \$2.9 billion in the Black Friday-Cyber Monday period in 2019. Notably, year-ago GMV figure in the same period stood at \$1.8 billion. Management noted that around two thirds of online orders from the U.S.-based Shopify merchants were registered via mobile devices.
- ▲ Shopify has a strong balance sheet with ample liquidity position and no debt obligations. As of Jun 30, 2020, Shopify ended the reported quarter with cash, cash equivalents and marketable securities balance of \$4 billion compared with \$2.36 billion as of Mar 31, 2020. The increase can be attributed to net proceeds worth \$1.46 billion from offering of Class A subordinate voting shares in the reported quarter. Shopify generated net cash flow in operations of \$80.2 million for six months ended Jun 30, 2020 compared with \$47.4 million for six months ended Jun 30, 2019. Increasing liquidity trend and strength in cash flow reflects that the company is making investments in the right direction. Since it carries no long-term debt, the cash is available for pursuing strategic acquisitions and investment in other growth initiatives.

Shopify's focus on developing merchant base, international expansion, addition of new functionalities, rich partner ecosystem and mobile focus are key catalysts.

Risks

- Shopify is relatively a new player in the e-commerce marketplace. Although it is not a direct competitor to behemoths like Alibaba and Amazon, many of its customers are. This presents significant risk for its growth prospects.
 - Moreover, the company focuses on the SMB segment which is more susceptible to macro-economic headwinds and makes the business challenging.
 - Furthermore, lack of big-shot international customers is a headwind for Shopify. The company doesn't have significant presence in the Asia-Pacific market, which is fastest growing retail e-commerce market according to eMarketer. This is a major deterrent in our view.
 - We believe that increasing investments on product development, Shopify Plus and cloud infrastructure will make it difficult for the company to sustain profitability. Moreover, it expects to further increase research & development (R&D) expense. Markedly, management intends to invest \$1 billion over the subsequent five years to develop the new fulfillment network, which is likely to impact margin expansion. We also note that Shopify has been incurring losses in the last three years and has an accumulated deficit of \$299.7 million as of Jun 30, 2020. Despite the improving top line, mounting losses might dent investors' optimism.
 - The company is trading at premium in terms of Price/Book (P/B). Shopify currently has a trailing 12-month P/B ratio of 24.62X, which compares unfavorably with what the industry witnessed over the last year. Additionally, the ratio is higher than the average level of 18.12X and is near the high end of the valuation range in this period. Hence, valuation looks slightly stretched from P/B perspective.
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Last Earnings Report

Shopify Q2 Earnings Surpass Estimates, Revenues Up Y/Y

Shopify Inc. reported second-quarter 2020 adjusted earnings of \$1.05 per share significantly outpacing the Zacks Consensus Estimate of earnings of 1 cent. The company had reported earnings of 10 cents in the prior-year quarter.

Total revenues improved 97% from the year-ago quarter's figure to \$714.3 million, which beat the Zacks Consensus Estimate by 40.65%.

COVID-19 pandemic has altered consumer spending behavior considerably and induced online store creation. The top line benefited from growth in the number of merchants as more of them joined the Shopify platform due to COVID-19 induced shelter-in-place guidelines.

Quarter Ending 06/2020

Report Date	Jul 29, 2020
Sales Surprise	40.65%
EPS Surprise	10,400.00%
Quarterly EPS	1.05
Annual EPS (TTM)	1.80

Quarter in Detail

Subscription Solutions revenues (27.5% of total revenues) surged 28% to \$196.4 million driven by persistent growth in Monthly Recurring Revenue (MRR) due to the addition of new merchants. Moreover, strong app growth and Shopify Plus variable platform fee revenue growth were positives.

As of Jun 30, 2020, MRR was \$57 million, up 21% from the year-ago quarter. Shopify Plus accounted for \$16.6 million, representing 29% of MRR compared with 26% in the quarter ended Jun 30, 2019.

Merchant Solutions revenues (72.5%) advanced 148% to \$517.9 million, primarily on growth in Gross Merchandise Volume (GMV) that improved 119% from the year-ago quarter's figure to \$30.1 billion.

Gross Payments Volume (GPV) came in at \$13.4 billion, accounting for 45% of GMV processed in the second quarter and up from \$5.8 billion (42%) in the prior-year quarter.

Shopify Capital advanced \$153 million cash to merchants in the reported quarter, surging 65% compared with \$93 million in the year-ago quarter. Since the launch of Shopify Capital, cumulative merchant cash advances have increased to \$1.2 billion, out of which \$166 million was outstanding as of Jun 30, 2020.

Shopify Shipping witnessed robust adoption in the second quarter. The offering is being leveraged by 49% of total eligible merchants across the United States and Canada, compared with 42% in year-ago quarter. The company rolled out Shopify Shipping in Australia in partnership with Sendle — a courier services company.

Operating Details

Non-GAAP gross profit (adjusted for amortization of acquired intangibles) surged 84% year over year to \$381.4 million. This can be attributed to robust performance of Shopify Plus merchants and higher mix of Merchant Solutions revenues. Non-GAAP gross margin contracted 400 basis points (bps) from the year-ago quarter's level to 53%.

Non-GAAP operating expenses surged 33.3% year over year to \$267.7 million. Non-GAAP operating expenses, as a percentage of revenues, contracted to 37% from 56% in the year-ago period.

Shopify reported adjusted operating income of \$113.7 million compared with operating income of \$6.4 million in the year ago quarter. The increase was driven by robust revenue growth.

Balance Sheet & Cash Flow

As of Jun 30, 2020, Shopify ended the reported quarter with cash, cash equivalents and marketable securities balance of \$4 billion compared with \$2.36 billion as of Mar 31, 2020. The increase can be attributed to net proceeds worth \$1.46 billion from offering of Class A subordinate voting shares in the reported quarter.

Shopify generated net cash flow in operations of \$80.2 million for six months ended Jun 30, 2020 compared with \$47.4 million for six months ended Jun 30, 2019.

Refrains From Providing Guidance

Management believes that coronavirus crisis led ecommerce boom, and momentum in online retail spending will continue. However, Shopify refrained from providing any guidance for third quarter or 2020 due to COVID-19 induced uncertainties prevailing in the market and plausibility of an extended recession globally.

Recent News

On Jun 30, Shopify partnered with Chipotle to launch the Chipotle Virtual Farmers' Market. Shopify's platform will be utilized by farmers in the Chipotle supply chain to deliver enhanced versions of their e-commerce portals.

On Jun 16, Shopify launched a fresh way for shoppers to support Black-owned businesses, by highlighting the businesses enabling them reach new customers, on mobile shopping assistant app, Shop.

On Jun 15, Shopify announced partnership with Walmart, in a bid to enable merchants sell products on Walmart.com. The move is a testament to the company's increasing efforts to bolster merchant base, pertaining to small and medium-sized businesses, with multiple channel options.

On May 21, Shopify inked a deal with CoinPayments to bring the latter's crypto payments processing platform to all Shopify merchants and boost the adoption of digital currency payments.

Valuation

Shopify's shares are up 144.5% in the year-to-date period and 163.3% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 16% and 19.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 25.2% and 34%, respectively.

The S&P 500 index is up 4.2% in the year-to-date period and 14.9% in the past year.

The stock is currently trading at 40.44X forward 12-month sales, which compares to 6.69X for the Zacks sub-industry, 3.99X for the Zacks sector and 3.67X for the S&P 500 index.

In the past five years, the stock has traded as high as 47.97X and as low as 1.1X, with a 5-year median of 11.42X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$1,117 price target reflects 46.47X forward 12-month sales.

The table below shows summary valuation data for SHOP

Valuation Multiples - SHOP					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	40.44	6.69	3.99	3.67
	5-Year High	47.97	14.87	4.01	3.67
	5-Year Low	1.1	5.13	2.32	2.53
	5-Year Median	11.42	8.5	3.14	3.05
P/B TTM	Current	24.62	5.92	6.14	4.64
	5-Year High	35.56	7.96	6.34	4.68
	5-Year Low	5.56	3.99	3.16	2.83
	5-Year Median	10.8	6.49	4.34	3.74
EV/Sales TTM	Current	52.87	6.97	4.59	3.23
	5-Year High	61.22	13.67	4.59	3.46
	5-Year Low	4.36	4.46	2.58	2.14
	5-Year Median	15.01	9.51	3.65	2.86

As of 08/11/2020

Industry Analysis Zacks Industry Rank: Top 47% (118 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
ANGI Homeservices Inc. (ANGI)	Outperform	2
Autohome Inc. (ATHM)	Neutral	3
eBay Inc. (EBAY)	Neutral	3
Etsy, Inc. (ETSY)	Neutral	1
Groupon, Inc. (GRPN)	Neutral	3
Square, Inc. (SQ)	Neutral	3
Zillow Group, Inc. (ZG)	Neutral	4
Wix.com Ltd. (WIX)	Underperform	5

Industry Comparison Industry: Internet - Services				Industry Peers		
	SHOP	X Industry	S&P 500	EBAY	GRPN	WIX
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	5
VGM Score	B	-	-	A	A	D
Market Cap	113.98 B	763.34 M	23.61 B	38.00 B	729.82 M	13.39 B
# of Analysts	25	3	14	12	4	8
Dividend Yield	0.00%	0.00%	1.69%	1.18%	0.00%	0.00%
Value Score	F	-	-	B	A	F
Cash/Price	0.03	0.17	0.07	0.14	1.06	0.05
EV/EBITDA	-1,827.99	2.36	13.32	14.29	1.59	-305.76
PEG Ratio	41.35	2.20	2.95	1.20	NA	NA
Price/Book (P/B)	24.62	3.41	3.22	13.09	6.19	65.38
Price/Cash Flow (P/CF)	NA	18.77	12.79	16.26	5.35	NA
P/E (F1)	1,474.50	33.09	22.02	15.15	NA	NA
Price/Sales (P/S)	54.80	2.85	2.57	3.55	0.39	15.69
Earnings Yield	0.07%	0.69%	4.29%	6.59%	-17.44%	-0.01%
Debt/Equity	0.00	0.09	0.77	2.95	1.89	1.81
Cash Flow (\$/share)	-0.60	0.09	6.94	3.34	4.75	-0.25
Growth Score	A	-	-	B	A	B
Hist. EPS Growth (3-5 yrs)	NA%	18.24%	10.41%	5.56%	NA	NA
Proj. EPS Growth (F1/F0)	119.73%	-7.61%	-6.51%	26.65%	-270.38%	-102.99%
Curr. Cash Flow Growth	85.89%	-3.00%	5.22%	8.64%	-29.11%	-2,949.32%
Hist. Cash Flow Growth (3-5 yrs)	NA%	19.91%	8.55%	-6.76%	11.55%	11.92%
Current Ratio	13.69	1.64	1.34	1.58	1.00	1.46
Debt/Capital	0.00%	12.41%	44.59%	74.71%	65.39%	64.42%
Net Margin	-3.25%	-8.91%	10.13%	46.91%	-12.00%	-15.92%
Return on Equity	0.32%	-5.73%	14.59%	77.65%	-27.35%	-46.89%
Sales/Assets	0.55	0.61	0.51	0.56	1.34	0.75
Proj. Sales Growth (F1/F0)	49.31%	0.00%	-1.45%	-0.22%	-50.35%	27.04%
Momentum Score	A	-	-	A	A	B
Daily Price Chg	-3.34%	0.00%	-0.17%	-0.15%	1.97%	-3.36%
1 Week Price Chg	2.84%	0.70%	2.30%	-0.13%	67.88%	0.39%
4 Week Price Chg	-0.25%	0.28%	6.41%	-8.11%	55.73%	-4.01%
12 Week Price Chg	29.08%	17.01%	15.42%	28.04%	5.39%	40.12%
52 Week Price Chg	163.25%	8.25%	2.88%	32.48%	-50.20%	79.23%
20 Day Average Volume	2,592,452	212,475	2,007,486	8,859,377	3,693,076	893,994
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	24.86%	-95.29%
(F1) EPS Est 4 week change	3.94%	0.00%	1.84%	3.44%	24.86%	-93.87%
(F1) EPS Est 12 week change	4.87%	2.36%	2.40%	17.49%	-441.00%	-144.83%
(Q1) EPS Est Mthly Chg	1.88%	0.00%	0.72%	7.70%	5.32%	-130.69%

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	F
Growth Score	A
Momentum Score	A
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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