

SL Green Realty Corp. (SLG)

\$90.74 (As of 01/15/20)

Price Target (6-12 Months): **\$96.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/09/17)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: D

Growth: F

Momentum: A

Summary

Shares of SL Green have outperformed its industry in the past three months. Moreover, the company is witnessing upward estimate revision for 2019 funds from operations (FFO) per share. It owns premium office properties in its portfolio, has a diverse tenant base and enjoys a solid balance sheet. With a healthy job-market scenario, growth in demand for SL Green's office spaces is expected to be decent. This will help it enjoy high rent and same-store net operating income (NOI) growth. Further, the company has been enhancing its office portfolio on the back of redevelopment efforts and non-core asset sales. However, rising supply of office properties and a competitive landscape might curb its pricing power. Moreover, the company's retail portfolio is likely to be affected by the prevalent retail store closures and tenant bankruptcies.

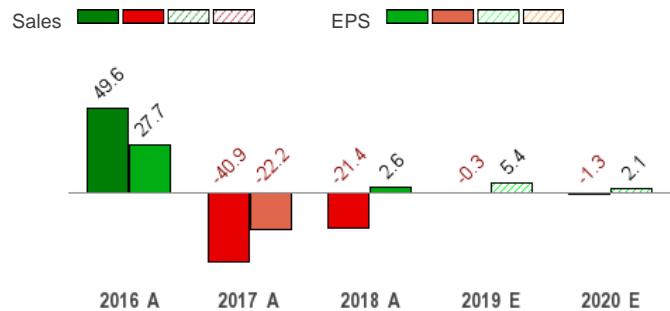
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$93.91 - \$75.46
20 Day Average Volume (sh)	643,429
Market Cap	\$7.3 B
YTD Price Change	-1.2%
Beta	1.09
Dividend / Div Yld	\$3.54 / 3.9%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Bottom 32% (173 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.2%
Last Sales Surprise	-0.1%
EPS F1 Est- 4 week change	0.8%
Expected Report Date	01/22/2020
Earnings ESP	0.5%
P/E TTM	13.2
P/E F1	12.7
PEG F1	3.4
P/S TTM	5.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	212 E	212 E	213 E	214 E	851 E
2019	213 A	216 A	215 A	217 E	862 E
2018	215 A	211 A	222 A	216 A	865 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.73 E	\$1.76 E	\$1.85 E	\$1.82 E	\$7.13 E
2019	\$1.68 A	\$1.82 A	\$1.75 A	\$1.74 E	\$6.98 E
2018	\$1.66 A	\$1.69 A	\$1.69 A	\$1.61 A	\$6.62 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 01/15/2020. The reports text is as of 01/16/2020.

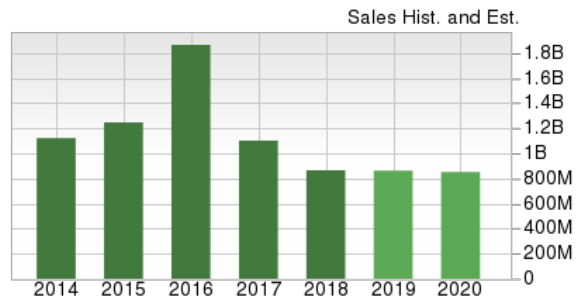
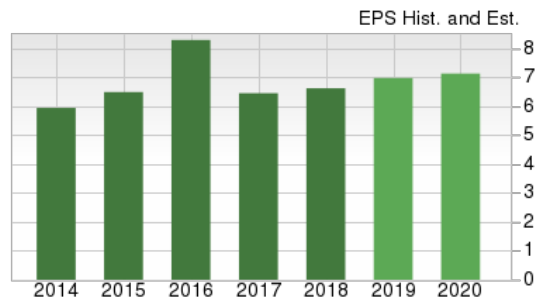
Overview

Founded in 1997, SL Green Realty Corp. is a real estate investment trust (REIT) that primarily acquires, manages, develops and leases commercial office properties in the New York Metropolitan area, especially midtown Manhattan. This S&P 500 company also makes investments in Brooklyn, Westchester County and Connecticut. These assets are jointly called the Suburban properties.

Moreover, of late, SL Green is seeking to tap opportunities in New York City's premium retail locations with its retail investments complementing its core office and structured finance businesses. The company has two reportable segments — real estate and debt and preferred equity investments (DPE).

As of Sep 30, 2019, SL Green had interests in 93 Manhattan assets, covering 45 million square feet of space. This comprised ownership interests in Manhattan properties, spanning over 27.2 million square feet of area, and debt and preferred equity investments collateralized by assets spread over 17.8 million square feet of area. Additionally, as of the same date, SL Green owned interests in seven suburban properties consisting of 15 buildings. These covered 2.3 million square feet of space, in Brooklyn, Westchester County and Connecticut.

Note: All EPS numbers presented in this report represent funds from operations ("FFO") per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.



Reasons To Buy:

- ▲ SL Green's dominance in the large and high-barrier to entry New York real estate market, with an enviable footprint, has enabled it to enjoy high occupancy at its portfolio. Additionally, the company aims at maintaining a diversified tenant base to hedge the risk associated with dependency on single-industry tenants. As a result, its largest tenants include renowned firms from different industries. This, along with more than 34 years of experience in real estate, will likely help the company generate stable rental revenues over the long term.
- ▲ With a resilient economy and stable job-market environment, healthy growth in demand for office spaces is expected to continue. This is because as the economy revives, business grows and therefore, corporate sectors seek expansion, renting more space to accommodate the increased workforce. Also, with the New York City economy projected to remain robust over the near term, the company is well poised to capitalize the upcoming demand for office space. In fact, financial services and technology tenants are primarily driving demand and bolstering leasing velocity in its markets. Moreover, expansion of co-working is boosting rents and driving significant space absorption at the company's properties. Also, early lease renewals and tenant expansions across the portfolio continues to drive leasing activity for SL Green.
- ▲ SL Green has been following an opportunistic investment policy to enhance its overall portfolio. This includes divesting its non-core assets in a tax-efficient manner and using the proceeds to fund development projects and share buybacks. Further, the company aims to liquidate its DPE balance by \$75 million in 2019. It will use these balances to repay the company's line of credit and for share buybacks. Such match-funding initiatives indicate the company's prudent capital-management practices and will relieve pressure from its investment-grade balance sheet.
- ▲ Furthermore, dividend payouts are arguably the biggest enticement for REIT investors and SL Green has consistently increased its dividend rate. In fact, this December, the company announced a 4.1% increase in its fourth-quarter dividend. This represented SL Green's ninth consecutive year of common dividend hike. Apart from dividend hikes, the company remains committed to increase shareholder value through share buybacks. The company initially announced a \$1-billion share repurchase program in August 2016. This authorization was enhanced in subsequent periods, with the most recent addition of \$500 million in December 2019, bringing the tally to \$3 billion. To date through Dec 6, 2019, SL Green has repurchased 22.8 million shares under this program.
- ▲ Shares of SL Green have gained 12%, over the past three months, as against the industry's decline of 1.4%. Furthermore, the trend in estimate revisions for 2019 FFO per share indicates a favorable outlook for the company as it has been revised marginally upward over the past month. Therefore, given the progress on fundamentals and positive estimate revisions, the stock is likely to perform well in the upcoming period.

Substantial high-quality office properties in key markets, diverse tenant base, opportunistic investments and strong balance sheet are growth drivers. Expansion of co-working space is also encouraging.

Reasons To Sell:

- ▼ Rising supply of office properties in SL Green's markets remains a concern for the company. The company faces intense competition from developers, owners and operators of office properties and other commercial real estate, including sublease space available from its tenants. This restricts its ability to attract and retain tenants at relatively higher rents than its competitors. Amid higher leasing costs and elevated supply of office assets, it will be challenging for the company to backfill near-term tenant move-outs.
- ▼ Moreover, geographic concentration of assets remains a concern for SL Green. In fact, majority of the company's property holdings consists of commercial office properties situated in midtown Manhattan. The company also has a number of retail properties and multifamily residential assets in its Manhattan portfolio. Therefore, performance of the company is susceptible to the condition of the New York City economy as well as the market for office space in midtown Manhattan.
- ▼ Any softness in the retail sector will also affect SL Green's leasing activities. In fact, the retail real estate environment is currently choppy. Mall traffic has been declining significantly amid rapid increase in online sales, forcing retailers to opt for store closures. This is adversely affecting the demand for retail space, limiting the landlord's pricing power and resulting in lesser absorption.
- ▼ Although interest rate levels are low presently, any hike in future can also pose a challenge for the company. This is because the company's ability to refinance existing debt would be restricted, while the interest cost on new debt would escalate. Moreover, the dividend payout itself might become less attractive than the yields on fixed income and money market accounts.

Rising supply of office properties, intense competition from developers and owners, retail tenant bankruptcies and geographic concentration of assets are causes of concern before SL Green.

Last Earnings Report

SL Green's Q3 FFO Surpasses Estimates, Revenues Dip Y/Y

SL Green reported third-quarter 2019 FFO of \$1.75 per share, surpassing the Zacks Consensus Estimate of \$1.73. The figure improved 5.4% year over year.

Results reflected decent leasing activity in the company's Manhattan portfolio. Further, total revenues for the quarter improved year over year.

Net rental revenues of \$215.45 million in the third quarter lagged the Zacks Consensus Estimate of \$215.63 million. The revenue figure also declined as compared to the prior-year tally of \$221.8 million.

Quarter Ending **09/2019**

Report Date	Oct 16, 2019
Sales Surprise	-0.08%
EPS Surprise	1.16%
Quarterly EPS	1.75
Annual EPS (TTM)	6.86

Quarter in Detail

For the third quarter, same-store cash NOI, including SL Green's share of same-store cash NOI from unconsolidated joint ventures, inched up 1.5% as compared with the prior-year period. This excludes free rent and lease termination income given to Viacom for space at 1515 Broadway.

In the Manhattan portfolio, SL Green signed 31 office leases for 268,349 square feet of space during the quarter. The average lease term on these leases is 7.2 years, while average tenant concessions were 3.9 months of free rent.

Importantly, for the third quarter, the mark-to-market on signed Manhattan office replacement leases was 3.2% higher than the previous fully-escalated rents on the same spaces. As of Sep 30, 2019, Manhattan's same-store occupancy, inclusive of leases signed but not yet commenced, was 95.3%, up 10 basis points as compared with the prior quarter.

The company also decreased the carrying value of its debt and preferred equity investment portfolio to \$1.99 billion.

Liquidity

SL Green exited the September-end quarter with cash and cash equivalents of nearly \$121.7 million, down from \$129.5 million recorded at the end of 2018.

Investment Activity

The company has repurchased 2.7 million shares of common stock and Operating Partnership units under its \$2.5-billion share-repurchase program, in the year-to-date period. The shares were bought back at an average price of \$84.08 per share.

Additionally, the company entered into a contract to sell 1010 Washington Boulevard in Stamford, CT, for \$23.1 million. This transaction, projected to generate cash proceeds of \$21.6 million, will likely close in fourth-quarter 2019.

Recent News

SL Green Signs 1.2M SF Leases in Q4, Sees Solid Demand – Dec 9, 2019

SL Green has been witnessing solid demand for space at its properties. The company has already signed 1,157,104 square feet of office and retail leases so far in the fourth quarter, bringing the year-to-date tally to 2,341,999 square feet for office leases.

Demand has been particularly strong from tenants within the technology, advertising, media and information (TAMI), finance, insurance and real estate (FIRE) and legal sectors.

SL Green also signed Amazon for 335,408-square-foot lease at 410 Tenth Avenue — previously known as 460 West 34th Street. Just seven months into acquisition, this building is already 96.2% leased, together with the First Republic Bank lease. SL Green is also performing a comprehensive redevelopment of the building.

Among the other notable office leases are that of Strategic Family, Inc.'s new 10-year lease, encompassing 82,557 square feet of space on the entire 6th and 7th floors at 711 Third Avenue, Greenberg Traurig LLP's 15-year lease spanning 46,744 square feet at 420 Lexington Avenue, as well as ITV US Holdings' new 10-year lease covering 31,971 square feet on the whole of 15th floor at 100 Park Avenue.

Moreover, the new retail leases included that of RAD Entertainment Group LLC's, the previous operator of the Beacon Theater, a 20-year, 39,436-square-foot lease encompassing the ground and lower levels at 1515 Broadway. Also, Walgreens agreed to vacate One Madison and signed a 10-year, 8,548-square-foot lease covering portions of the ground and 2nd floors at 304 Park Avenue South.

SL Green Hikes Dividend, Expands Share-Buyback Program to \$3B – Dec 6, 2019

SL Green rewarded shareholders with a 4.1% sequential hike in the company's fourth-quarter 2019 dividend to 88.5 cents per share on its common stock and OP units.

The increased dividend was paid on Jan 15, 2020, to shareholders of record as on Jan 2, 2020.

Per management, SL Green's portfolio of premium assets in New York City's key sub-markets as well as efforts to enhance portfolio quality on the back of redevelopment and development efforts enables the company to generate attractive dividends.

The company's board of directors also authorized an increase of \$500 million to its share-repurchase program.

SL Green had initially announced a \$1-billion share-repurchase program in August 2016. This authorization was enhanced in subsequent periods, with the most recent addition bringing the tally to \$3 billion. To date, SL Green has repurchased 22.8 million shares under this program.

Per management, the company is expanding its share-buyback program to benefit from the gap between its net asset value and share price.

SL Green Inks Renewal Lease With BMW for 555 West 57th Street – Oct 29, 2019

SL Green inked a renewal lease with BMW of Manhattan for nearly 227,000 square feet of space at 555 West 57th Street. The renewed lease is for 10 years. The tenant occupies the second floor through the fourth floor, along with portions of the ground and concourse levels.

The 555 West 57th Street is a 20-story building offering Class A office space. The property has been fully revamped with new entrances, hallways and an outdoor plaza.

SL Green's Signs Two Leases at One Vanderbilt Making it 64% Leased – Oct 29, 2019

SL Green announced signing a new lease and another expansion lease at the company's trophy office tower development, One Vanderbilt Avenue. With these transactions, the property is 64% leased.

Specifically, Oak Hill Advisors — a leading alternative investment firm — signed a 15-year lease for 45,954 square feet of space. The company will occupy the entire 16th floor. Additionally, global investment firm, The Carlyle Group, has expanded its lease for the second time at One Vanderbilt since signing the initial lease in July 2018. The company is now set to occupy an additional 33,034 square feet on the 34th floor, aggregating its total footprint to 160,778 square feet across floors 34 through 38.

Notably, the East Midtown tower, topped out 1,401 feet this September and is three months ahead of schedule. The project is \$100 million under budget and slated to open in August 2020.

SL Green Buys Manhattan Office Property, Plans Repositioning – Oct 17, 2019

SL Green announced signing a contract to acquire a six-story, 160,000-square-foot office property — 603 West 50th Street — in Manhattan. Slated to close in the next 90 days subject to customary closing norms, this off-market acquisition will be partly funded by proceeds from the sale of 1010 Washington Boulevard in Stamford, CT.

The move is in sync with the company's strategy of improving overall portfolio quality by exiting non-core assets and redeploying capital into better quality properties with greater upside potential, in a tax-efficient manner.

Moreover, the decision to acquire this property is a strategic fit as it offers repositioning prospects. In fact, through capital improvements and a targeted leasing strategy, the company aims at transforming an underdeveloped asset into a competitive class-A building. These efforts will help lure companies across industries.

Particularly, to lift the asset profile, SL Green plans to implement a comprehensive renovation program. This will include upgrading the building

with superior infrastructure as well as improving the industrial aesthetic of the property that was built in 1940. SL Green will lease-back around 40,000-square-feet of office space to KCP Holdco, Inc., an affiliate of the seller, which presently enjoys occupancy of the asset.

SL Green to Sell 220 East 42nd Street for \$815M – Oct 1, 2019

SL Green entered into a contract to dispose the company's 220 East 42nd Street property for total consideration of \$815 million. The transaction is one of New York City's largest transaction this year and is expected to close in first-quarter 2020.

The Midtown Manhattan property also known as The News Building is a 37-story art-deco skyscraper. SL Green purchased the property in February 2003 for \$265 million. Following this, a multi-year repositioning and re-tenanting of the property enabled the building to enjoy its current occupancy of 97%.

The sale is in line with the company's strategy of banking on a healthy investment market to sell assets and use sale proceeds to repurchase shares. This also enabled the company to maintain a low leverage profile.

Valuation

SL Green's shares have been up 2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have gained 16.8% and 12.1%, over the past year.

The S&P 500 Index has been up 23.6% over the past year.

The stock is currently trading at 12.71X forward 12-month FFO, which compares to 17.88X for the Zacks sub-industry, 14.85X for the Zacks sector and 18.95X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 21.13X and as low as 11.04X, with a 5-year median of 14.61X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$96 price target reflects 13.45X FFO.

The table below shows summary valuation data for SLG.

Valuation Multiples - SLG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	12.71	17.88	14.85	18.95
	5-Year High	21.13	18.94	16.21	19.34
	5-Year Low	11.04	14.29	12.01	15.17
	5-Year Median	14.61	16.11	13.98	17.44
P/S F12M	Current	8.56	8.12	6.53	3.52
	5-Year High	10.85	8.12	6.61	3.52
	5-Year Low	5.75	5.9	5.2	2.54
	5-Year Median	8.6	6.88	6.04	3
P/B TTM	Current	1.22	2.79	2.83	4.49
	5-Year High	1.79	2.92	2.89	4.49
	5-Year Low	0.99	2.06	1.83	2.85
	5-Year Median	1.32	2.52	2.5	3.61

As of 01/15/2020

Industry Analysis Zacks Industry Rank: Bottom 32% (173 out of 254)



Top Peers

Alexandria Real Estate Equities, Inc. (ARE)	Neutral
Boston Properties, Inc. (BXP)	Neutral
Cousins Properties Incorporated (CUZ)	Neutral
Douglas Emmett, Inc. (DEI)	Neutral
Highwoods Properties, Inc. (HIW)	Neutral
Hudson Pacific Properties, Inc. (HPP)	Neutral
Kilroy Realty Corporation (KRC)	Neutral
Piedmont Office Realty Trust, Inc. (PDM)	Neutral

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	SLG Neutral	X Industry	S&P 500	ARE Neutral	BXP Neutral	HIW Neutral
VGM Score	D	-	-	D	D	D
Market Cap	7.27 B	3.04 B	24.22 B	19.90 B	21.23 B	5.15 B
# of Analysts	9	4	13	3	7	8
Dividend Yield	3.90%	4.10%	1.75%	2.54%	2.85%	3.83%
Value Score	D	-	-	F	D	D
Cash/Price	0.03	0.03	0.04	0.02	0.04	0.02
EV/EBITDA	18.52	17.60	14.11	25.85	18.70	15.39
PEG Ratio	3.43	3.64	2.06	5.26	2.65	5.36
Price/Book (P/B)	1.26	1.70	3.34	2.07	2.72	2.40
Price/Cash Flow (P/CF)	10.00	15.03	13.57	20.70	17.26	12.86
P/E (F1)	12.73	15.42	18.90	21.98	18.24	13.80
Price/Sales (P/S)	5.82	6.92	2.65	13.59	7.30	7.10
Earnings Yield	7.86%	6.48%	5.29%	4.55%	5.48%	7.26%
Debt/Equity	0.99	0.88	0.72	0.76	1.52	1.08
Cash Flow (\$/share)	9.08	2.27	6.94	7.84	7.95	3.86
Growth Score	F	-	-	C	D	C
Hist. EPS Growth (3-5 yrs)	0.38%	3.10%	10.56%	7.92%	5.23%	3.27%
Proj. EPS Growth (F1/F0)	2.20%	4.11%	7.59%	5.83%	7.76%	8.50%
Curr. Cash Flow Growth	9.58%	13.18%	14.73%	46.47%	13.75%	-3.61%
Hist. Cash Flow Growth (3-5 yrs)	9.89%	18.05%	9.00%	20.39%	0.61%	10.23%
Current Ratio	1.65	1.27	1.24	0.37	3.98	1.40
Debt/Capital	47.68%	46.68%	42.99%	42.99%	59.69%	52.94%
Net Margin	15.37%	13.72%	11.14%	9.29%	18.20%	17.85%
Return on Equity	3.18%	4.54%	17.16%	1.63%	6.70%	5.93%
Sales/Assets	0.09	0.13	0.55	0.09	0.14	0.15
Proj. Sales Growth (F1/F0)	-1.31%	4.76%	4.23%	NA	3.21%	4.58%
Momentum Score	A	-	-	C	D	F
Daily Price Chg	-0.11%	0.94%	0.27%	1.14%	0.68%	0.34%
1 Week Price Chg	2.06%	-0.04%	0.39%	-1.29%	-1.14%	1.26%
4 Week Price Chg	0.55%	2.41%	2.17%	2.62%	1.38%	5.51%
12 Week Price Chg	7.88%	-0.34%	6.65%	2.89%	4.86%	11.51%
52 Week Price Chg	2.55%	13.74%	22.43%	33.13%	14.60%	17.58%
20 Day Average Volume	643,429	504,235	1,545,017	1,081,436	472,602	588,961
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	-0.05%	0.00%	0.00%
(F1) EPS Est 4 week change	0.82%	0.00%	0.00%	0.45%	0.00%	-0.03%
(F1) EPS Est 12 week change	2.37%	-0.43%	-0.41%	-0.49%	1.01%	0.89%
(Q1) EPS Est Mthly Chg	0.47%	0.00%	0.00%	2.87%	0.00%	0.00%

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	D
Growth Score	F
Momentum Score	A
VGM Score	D

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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