

## Sonoco Products Co. (SON)

**\$55.56** (As of 06/08/20)

Price Target (6-12 Months): **\$59.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 02/19/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**4-Sell**

Zacks Style Scores:

VGM:B

Value: B

Growth: B

Momentum: B

### Summary

Sonoco has withdrawn the 2020 financial guidance due to the uncertainty related to the coronavirus pandemic. The company has provided guidance for second-quarter 2020 and expects adjusted EPS at 73- 83 cents compared with the year-ago quarter's 95 cents. The guidance reflects a negative price/cost relationship, due to higher recycled fiber costs, and a negative impact from a strong U.S. dollar. Moreover, the company's results will likely be hurt by weak demand across its business due to the pandemic. The estimate for the current quarter's earnings has undergone negative revision lately. The company however has a positive record of earnings surprise in the last few quarters. Sonoco will gain from growth in consumer-related businesses and its focus on improving productivity, cost control and solid financial position.

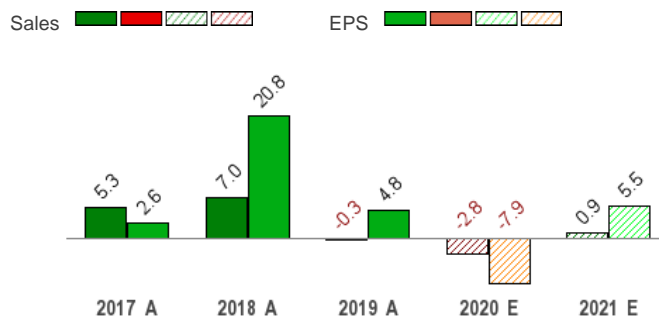
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$66.57 - \$37.30
20 Day Average Volume (sh)	457,762
Market Cap	\$5.6 B
YTD Price Change	-10.0%
Beta	0.82
Dividend / Div Yld	\$1.72 / 3.1%
Industry	<a href="#">Containers - Paper and Packaging</a>
Zacks Industry Rank	Bottom 35% (163 out of 252)

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



Last EPS Surprise	11.9%
Last Sales Surprise	-4.4%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/16/2020
Earnings ESP	0.0%
P/E TTM	15.4
P/E F1	17.1
PEG F1	3.7
P/S TTM	1.1

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					5,271 E
2020	1,303 A	1,314 E	1,309 E	1,298 E	5,224 E
2019	1,352 A	1,360 A	1,354 A	1,309 A	5,374 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$3.43 E
2020	\$0.94 A	\$0.78 E	\$0.84 E	\$0.73 E	\$3.25 E
2019	\$0.85 A	\$0.95 A	\$0.97 A	\$0.75 A	\$3.53 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 06/08/2020. The reports text is as of 06/09/2020.

## Overview

Incorporated in 1899, Hartsville, SC-based Sonoco Products is a leading provider of consumer packaging, industrial products, protective packaging and packaging supply chain services.

The company has around 300 operations in 34 countries throughout North and South America, Europe, Australia and Asia. The majority of the Sonoco's revenues are from products and services sold to consumer and industrial products companies for use in the packaging of their products for sale or shipment.

The company manufactures paperboard, primarily from recycled materials, for both internal use and open market sale. The company reports financial results in four segments.

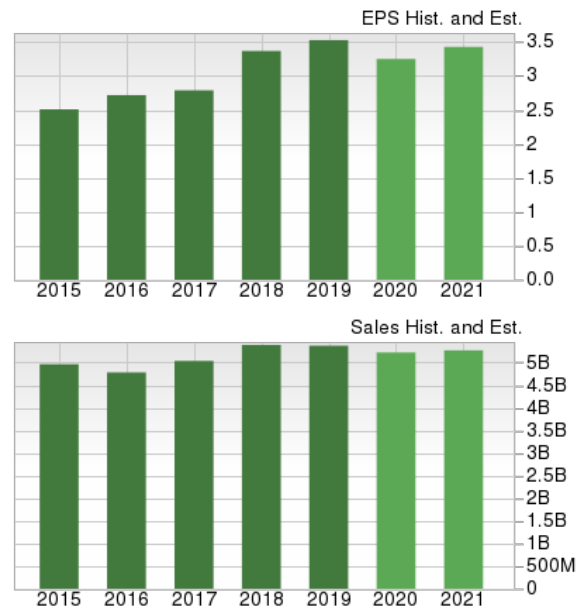
**Consumer Packaging** (43% of sales in fiscal 2019) makes round and shaped rigid containers and trays (both composite and thermoformed plastic), extruded and injection-molded plastic products; printed flexible packaging; global brand artwork management; and metal and peelable membrane ends and closures.

**Paper and Industrial Converted Products** (37%) makes paperboard tubes, cones, and cores; fiber-based construction tubes; wooden, metal and composite wire and cable reels and spools; and recycled paperboard, linerboard, corrugating medium, recovered paper and material recycling services.

**Display and Packaging** (10%) is engaged in designing, manufacturing, assembling, packing and distributing temporary, semi-permanent and permanent point-of-purchase displays; supply chain management services, including contract packing, fulfillment and scalable service centers; retail packaging, including printed backer cards, thermoformed blisters and heat sealing equipment; and paper amenities, such as coasters and glass covers.

**Protective Solutions** (10%) offers custom-designed paperboard-based and expanded foam protective packaging and temperature-assurance packaging.

Due to its geographic footprint and the cost-competitive nature of its businesses, the company is constantly seeking the most cost-effective means and structure to serve its customers and to respond to fundamental changes in its markets. As such, restructuring costs have been and are expected to be a recurring component of the Company's operating costs.



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## Reasons To Buy:

- ▲ Sonoco is an essential provider of consumer, industrial and medical packaging. Hence, the company's global operations continue to operate and are serving customers' critical needs during the coronavirus crisis. The company anticipates consumer-related businesses to keep performing well in the second quarter as food consumption trends will sustain on account of stay-at-home consumers. Approximately 80% of the Consumer Packaging segment's sales come from food packaging where the company is witnessing increased orders. Moreover, the company's focus on optimizing businesses through productivity improvement, standardization and cost control will also aid results in the near term.
- ▲ In second-quarter 2020, paperboard operations in North America are likely to be relatively steady as increased demand for tissue and towel market will help offset declines from some industrial converted-product businesses. The ThermoSafe temperature-assured packaging business is likely to perform well as it is supplying coolers, critical for virus testing and pharmaceutical transport. The company is responding to the pandemic-related crisis with cost-reduction initiatives, and is focused on continuing production and shipping products to customers without supply-chain disruptions.
- ▲ Sonoco's \$83-million capital investment in project Horizon over the next several years will significantly lower uncoated recycled paperboard mill operating costs in the United States and Canada. The investment will transform Hartsville corrugated medium machine to a state-of-the-art be URB operation with annual production capacity of roughly 180,000 tons. Design and development of project work will begin later this year and the machine conversion is expected to be completed in early 2022. The new machine will be able to produce a wide range of URB paper grades and will enable to meet internal and trade customer needs. This will create larger opportunity for the company's North America URB system. In fact, the investment will provide annual cost savings of \$24 million after the full ramp up of production.
- ▲ The company is focused on driving profitable growth, margin expansion and generating solid free cash flow. Sonoco's balance sheet strength and availability of substantial liquidity in the form of cash and revolving credit facilities, as well as the ability to issue commercial paper and to access liquidity in the bank or other debt capital markets place it well to navigate through the current unprecedented crisis. The company's long-term debt was \$1,187 million at the end of first-quarter 2020. This has been lowered from \$1,193 million in the December-end quarter. The company's times interest earned ratio was 6.9x in the first quarter. The company currently has \$250 million available under its revolving credit facility and cash in hand of approximately \$400 million. Sonoco is also implementing further actions to strengthen cash flow and improve liquidity. These actions include reducing planned capital expenditure for the current year, deferring pension-termination contributions to 2021 and closely managing working capital. It is also taking aggressive actions to reduce operating costs and selling, general and administrative expenses.
- ▲ In the March-end quarter, Sonoco registered top-line growth from TEQ acquisition in consumer segment and the Corenso acquisition in the industrial segment. Last October, the company acquired the remaining 70% interest in the Conitex-Sonoco joint venture and Texpack's composite can operation in Spain. The acquisition has aided the company in expanding manufacturing presence in the Americas, Europe, and rapidly growing emerging markets in Asia. The buyout of Corenso Holdings North America strengthened Sonoco's domestic paperboard operations. The company also penetrated the growing healthcare market with the addition of Thermoformed Engineered Quality LLC, and Plastique Holdings, LTD, (together TEQ) in January 2020. The fast-growing healthcare packaging space is the company's key growth area.

Sonoco is poised to gain from consumer packaging business, strong productivity and cost control. Further its strong balance sheet enables the company to invest in growth as well as acquisitions.

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## Reasons To Sell:

- ▼ Sonoco has withdrawn guidance for earnings, cash flow from operations and free cash flow for 2020 citing the uncertainty regarding the severity and duration of the coronavirus pandemic and inability to ascertain impact on the company's served markets. However, the company has issued guidance for second-quarter 2020. It expects adjusted earnings per share between 73 cents and 83 cents compared with earnings of 95 cents per share reported in second-quarter 2019. The guidance reflects a negative price/cost relationship, as a result of higher recycled fiber costs, and a negative impact from a strong U.S. dollar. Moreover, the company's second-quarter results will likely be hurt by weak demand on account of the unfavorable impact of the coronavirus outbreak on certain parts of its business.
- ▼ Sonoco has been witnessing higher prices of Old Corrugated Containers (OCC), which is the largest raw material used by the company's recycled paperboard mills. If the higher levels of OCC pricing continues, it is likely to suppress operating margins in the near term. Higher OCC costs will also negatively impact industrial segments earnings in the second quarter. The Protective Solutions segment is likely to be affected by lower demand in molded foam and consumer fiber businesses in the quarter. Higher recycled fiber prices will impact the company's paper-based businesses during the second quarter until the company achieves recovery of higher cost in the second half of the year. Additionally, Sonoco has announced a \$50-ton price increase for paperboard and a minimum of 8% increase for tubes and cores in North America to cover this higher inflation.
- ▼ The U.S.-China trade tensions and waning global demand seems to have taken its toll on the U.S manufacturing sector, which is likely to impact demand for Sonoco's industrial segment. The U.S Purchasing Managers' Index (PMI) released by the Institute for Supply Management had been below 50 (indicating contraction) for five consecutive months till December 2019. Even though the index had climbed to 50.9 in January and 50.1 in February, it dipped to 49.1% in March and 41.5% in April. The manufacturing sector has clearly been impacted by the coronavirus pandemic and energy market volatility. Weakening global economic conditions and the uncertainty regarding the impact of the outbreak are weighing on the sector's customers. Customers have thus taken a conservative stance to manage their businesses by aggressively destocking inventory and holding back on new product launches. This slowdown in customer orders remains a major headwind.
- ▼ Over the past few years, Consumer Packaging volumes have been affected as consumers' preference for packaged food is clearly being impacted by changing taste for more fresh and natural products. Sonoco's plastic business continues to struggle, particularly in the Perimeter of the Store and industrial operations. Further, impact of tariffs on steel, aluminum and other products will continue to hurt Sonoco's margins. The company is also facing inflationary cost pressure from higher freight, wages, energy and elevated cost for materials, particularly resins.

Impact of the coronavirus outbreak on the company's operations and the slowdown in customer orders will weigh on Sonoco's top line. Higher material and other costs will dent margins.

## Last Earnings Report

### Sonoco Beats on Q1 Earnings, Withdraws '20 Guidance

Sonoco reported adjusted earnings of 94 cents in first-quarter 2020, which outpaced the Zacks Consensus Estimate of 84 cents by a margin of 12%. The figure also improved 11% from the prior-year quarter. The bottom line was also higher than management's guidance of 83-89 cents. The improved performance was driven by productivity improvements and cost management.

On a reported basis, including one-time items, earnings per share came in at 80 cents compared with the year-ago quarter's 73 cents.

Sonoco's net sales came in at \$1.30 billion missing the Zacks Consensus Estimate of \$1.36 billion. The top line also declined 3.6% year over year due to lower volume/mix, reduced selling prices and a stronger U.S. dollar. However, increased sales from acquisitions somewhat offset these negatives.

### Operational Update

Cost of sales came in at \$1.04 billion compared with \$1.08 billion in the year-earlier quarter. Gross profit during the reported quarter totaled \$267 million, down from the year-ago quarter's \$270 million. Gross margin came in at 20.5% compared with 20.0% reported in the prior-year period.

Selling, general and administrative expenses totaled \$124 million, down 13% year over year. This can primarily be attributed to the company's focus on reducing controllable costs, which were partially offset by the addition of expenses from acquisitions. Adjusted operating income improved 13% year over year to \$144 million during first-quarter 2020. Operating margin came in at 11.0% compared with the 9.5% in the year-ago quarter.

### Segment Performance

The Consumer Packaging segment reported net sales of \$588 million, down 0.2% from \$590 million in the prior-year quarter. Operating profit climbed to \$67.8 million from \$62.1 million in the comparable period last year.

Net sales in the Paper and Industrial Converted Products segment came in at \$475 million, indicating a year-over-year decline 4%. Operating profit totaled \$54 million compared with the \$48 million in the year-ago period.

The Display and Packaging segment's net sales declined 12% year over year to \$121 million. The segment reported an operating profit of \$8.1 million compared with the \$6.5 million reported in the year-earlier quarter.

The Protective Solution segment's net sales came in at \$119 million, down 7.7% year. Operating profit of the segment jumped 27% year over year to \$14 million.

### Financial Performance

Sonoco reported cash and cash equivalents of \$123.3 million at the end of first-quarter 2020 compared with \$145 million at the end of 2019. The company recorded cash flow from operating activities of around \$88 million in first-quarter 2020 compared with the prior-year figure of \$92 million. Free cash flow for the quarter was \$13.7 million, compared with \$9.5 million in the year-ago quarter. At the end of the first quarter, the company's total debt-to-capital ratio was 48.3% compared with the 48.1% reported at the end of 2019.

### Q2 Guidance Provided, 2020 Outlook Withdrawn

Sonoco has withdrawn guidance for earnings, cash flow from operations and free cash flow for 2020 citing the uncertainty regarding the severity and duration of the coronavirus pandemic and inability to ascertain impact on the company's served markets. Currently, the company cannot estimate the financial impact of the COVID-19 pandemic on its results in 2020.

However, the company has provided guidance for second-quarter 2020. Sonoco expects adjusted earnings per share between 73 cents and 83 cents compared with earnings of 95 cents per share reported in second-quarter 2019. The guidance reflects a negative price/cost relationship, as a result of higher recycled fiber costs, and a negative impact from the strong U.S. dollar.

Sonoco anticipates consumer-related businesses to continue performing well in the second quarter as food consumption trends will sustain on account of stay-at-home consumers. Approximately 80% of the Consumer Packaging segment's sales come from food packaging where the company is witnessing increased orders.

Paperboard operations in North America is likely to be relatively steady as increased demand for board serving the tissue and towel market should help offset declines from some of the industrial converted products businesses. Tubes, cores and cones volume are expected to be lower. The ThermoSafe temperature-assured packaging business is likely to perform well as it is supplying coolers, critical for virus testing and pharmaceutical transport. However, the Protective Solutions segment is likely to be negatively impacted by lower demand in molded foam and consumer fiber businesses.

### Quarter Ending 03/2020

Report Date	Apr 16, 2020
Sales Surprise	-4.40%
EPS Surprise	11.90%
Quarterly EPS	0.94
Annual EPS (TTM)	3.61

## Recent News

### Sonoco Hikes Prices for Rigid Paper Containers - May 6, 2020

Sonoco is increasing prices for all rigid paper containers and closures sold in North America by a minimum of 5.5%. The price increase and shipments will be effective from Jun 8, 2020. The move will support to recover rising costs for recycled paperboard, which is a primary raw material used to produce rigid paper containers.

### Sonoco Arm to Hike Prices for Paper-Based Tubes & Core - Apr 30, 2020

Sonoco's wholly owned subsidiary Sonoco-Alcore S.a.r.l. recently has announced to hike prices for paper-based tubes and cores up to 8%, depending on product category. The price increase, which will be effective with shipments beginning in May 15, 2020, has been made to counter surge in core board prices across European countries due to weak economic conditions and higher cost of OCC (old corrugated containers).

## Valuation

Sonoco's shares are down 11.2% in the year-to-date period and 16.2% over the trailing 12-month period. Stocks in Containers - Paper and Packaging industry and the Zacks Industrial Products sector are down 3.7% and 14.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry are down 32.5% while the sector are up 1.3%

The S&P 500 index is up 0.2% in the year-to-date period and up 11.8% in the past year.

The stock is currently trading at 16.69X forward 12-month earnings, which compares to 16.60X for the Zacks sub-industry, 23.83X for the Zacks sector and 23.35X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.80X and as low as 10.55X, with a 5-year median of 16.49X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$59 price target reflects 17.72X forward 12-month earnings.

The table below shows summary valuation data for SON:

Valuation Multiples - SON					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	16.69	16.6	23.83	23.35
	5-Year High	19.8	18.95	23.83	23.35
	5-Year Low	10.55	7.13	12.55	15.23
	5-Year Median	16.49	16.43	16.66	17.49
P/S F12M	Current	1.06	2.5	2.96	3.63
	5-Year High	1.19	5.06	2.96	3.63
	5-Year Low	0.7	1.46	1.52	2.53
	5-Year Median	1.01	1.82	2	3.02
EV/EBITDA TTM	Current	8.37	17.9	17.16	11.97
	5-Year High	10.55	28.56	17.45	12.85
	5-Year Low	6.24	12.02	10.74	8.25
	5-Year Median	8.73	15.24	14.8	10.81

As of 06/08/2020

## Industry Analysis Zacks Industry Rank: Bottom 35% (163 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
Silgan Holdings Inc. (SLGN)	Outperform	1
AptarGroup, Inc. (ATR)	Neutral	4
Berry Global Group, Inc. (BERY)	Neutral	3
Ball Corporation (BLL)	Neutral	4
Crown Holdings, Inc. (CCK)	Neutral	3
Greif, Inc. (GEF)	Neutral	3
Packaging Corporation of America (PKG)	Neutral	3
Sealed Air Corporation (SEE)	Neutral	3

Industry Comparison Industry: Containers - Paper And Packaging				Industry Peers		
	SON	X Industry	S&P 500	ATR	CCK	SEE
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	4	3	3
VGM Score	B	-	-	B	D	B
Market Cap	5.57 B	5.44 B	23.56 B	7.29 B	9.54 B	5.44 B
# of Analysts	5	5	14	6	5	7
Dividend Yield	3.10%	1.95%	1.8%	1.27%	0.00%	1.83%
Value Score	B	-	-	D	C	B
Cash/Price	0.02	0.03	0.06	0.06	0.08	0.05
EV/EBITDA	9.67	9.67	13.19	13.99	10.46	12.63
PEG Ratio	3.61	3.30	3.18	5.13	2.82	3.30
Price/Book (P/B)	3.18	2.68	3.19	4.59	4.68	NA
Price/Cash Flow (P/CF)	9.33	9.16	12.52	15.93	7.97	9.16
P/E (F1)	16.86	16.92	23.31	35.89	14.12	12.95
Price/Sales (P/S)	1.05	1.05	2.51	2.57	0.82	1.12
Earnings Yield	5.85%	5.92%	4.15%	2.78%	7.08%	7.73%
Debt/Equity	0.68	1.39	0.76	0.71	4.28	-20.60
Cash Flow (\$/share)	5.96	3.81	7.01	7.13	8.88	3.82
Growth Score	B	-	-	A	D	B
Hist. EPS Growth (3-5 yrs)	8.75%	12.23%	10.87%	7.69%	10.51%	2.11%
Proj. EPS Growth (F1/F0)	-7.88%	-7.98%	-10.76%	-19.87%	-1.88%	-4.36%
Curr. Cash Flow Growth	3.38%	9.13%	5.48%	5.66%	7.40%	10.79%
Hist. Cash Flow Growth (3-5 yrs)	5.30%	6.65%	8.55%	5.76%	12.67%	-2.40%
Current Ratio	1.11	1.70	1.29	1.70	1.31	1.14
Debt/Capital	40.36%	60.74%	44.75%	41.47%	81.06%	NA
Net Margin	5.61%	4.32%	10.59%	8.26%	4.24%	6.84%
Return on Equity	20.13%	20.13%	16.26%	16.05%	35.65%	-179.75%
Sales/Assets	1.06	0.86	0.55	0.79	0.75	0.87
Proj. Sales Growth (F1/F0)	-2.80%	0.00%	-2.62%	-3.86%	-2.68%	-2.33%
Momentum Score	B	-	-	B	D	B
Daily Price Chg	1.13%	0.33%	1.55%	0.16%	1.29%	-0.57%
1 Week Price Chg	6.04%	5.50%	7.51%	1.80%	6.85%	9.44%
4 Week Price Chg	15.65%	14.83%	15.61%	6.84%	16.60%	19.01%
12 Week Price Chg	34.95%	36.53%	38.10%	29.24%	44.63%	66.97%
52 Week Price Chg	-15.05%	-4.64%	3.66%	-7.82%	17.63%	-21.80%
20 Day Average Volume	457,762	242,513	2,648,536	235,312	1,053,398	1,051,937
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	-9.97%	-6.61%	-15.97%	-18.01%	-8.50%	-7.59%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%



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## 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.

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### 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	B
Growth Score	B
Momentum Score	B
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.

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