

Simon Property Group (SPG)

\$140.53 (As of 02/20/20)

Price Target (6-12 Months): **\$149.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/17/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: D

Growth: D

Momentum: C

Summary

Simon Property recently agreed to acquire Taubman Centers, in a deal valued at \$3.6 billion. The deal is expected to be at least 3% accretive to its FFO per share on an annualized basis, starting immediately upon consummation of the transaction. Of late, Simon Property, Authentic Brands Group (ABG) and Brookfield Property Partners have also struck a partnership for acquisition of Forever 21. The REIT posted better-than-expected performance in the fourth quarter, highlighting increase in leasing spread per square foot at its U.S. malls and Premium Outlets. With a strong balance sheet, it is poised to gain from new development, redevelopment, expansion and acquisition efforts. Yet, decent upfront cost of implementing such moves and the choppy environment remain near-term concerns. Also, its shares have underperformed the industry in the past year.

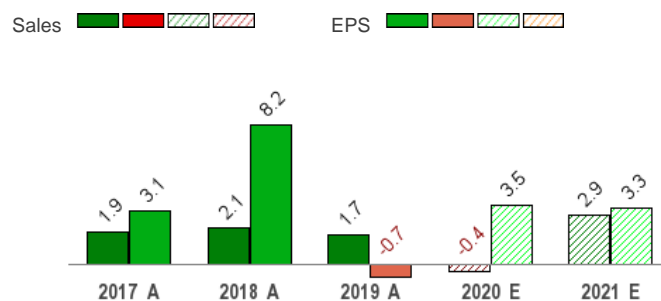
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$186.40 - \$130.01
20 Day Average Volume (sh)	2,422,971
Market Cap	\$45.0 B
YTD Price Change	-5.7%
Beta	0.59
Dividend / Div Yld	\$8.40 / 6.0%
Industry	REIT and Equity Trust - Retail
Zacks Industry Rank	Bottom 13% (221 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.3%
Last Sales Surprise	1.5%
EPS F1 Est- 4 week change	-1.7%
Expected Report Date	05/05/2020
Earnings ESP	0.4%
P/E TTM	11.7
P/E F1	11.3
PEG F1	2.5
P/S TTM	7.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,438 E	1,460 E	1,475 E	1,551 E	5,896 E
2020	1,406 E	1,417 E	1,443 E	1,516 E	5,730 E
2019	1,453 A	1,397 A	1,417 A	1,489 A	5,755 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$3.04 E	\$3.15 E	\$3.24 E	\$3.46 E	\$12.87 E
2020	\$2.97 E	\$3.05 E	\$3.13 E	\$3.33 E	\$12.46 E
2019	\$3.04 A	\$2.99 A	\$3.05 A	\$2.96 A	\$12.04 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/20/2020. The reports text is as of 02/21/2020.

Overview

Headquartered in Indianapolis, IN, Simon Property Group Inc. is a leading publicly-traded real estate investment trust (REIT) in the United States, which is engaged in acquiring, owning and leasing of shopping, dining, entertainment and mixed-use destinations. The company's real estate portfolio consists of Malls, Premium Outlets and The Mills and International Properties.

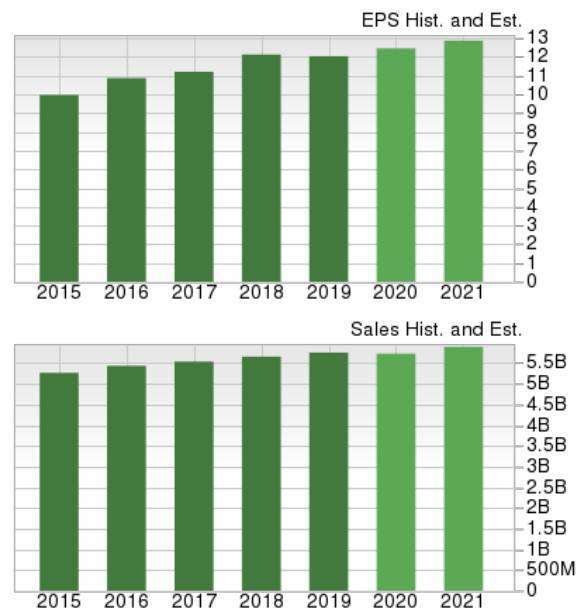
As of Sep 30, 2019, Simon Property owned or held interests in 204 properties in the United States. This comprises 106 malls, 69 Premium Outlets, 14 Mills, four lifestyle centers, and 11 other retail properties in 37 states and Puerto Rico. As of the same date, the company had ownership in 29 Premium Outlets and Designer Outlet properties mainly located in Asia, Europe, and Canada. Additionally, the company had 21.9% equity stake in Klépierre, a publicly-traded French real estate company that owns interest in shopping centers across 16 countries in Europe.

On Feb 10, Simon Property Group agreed to acquire Taubman Centers in a deal valued at \$3.6 billion. Simon Property will buy an 80% ownership stake in The Taubman Realty Group Limited Partnership ("TRG"). Simon Property will acquire all of Taubman common stock for \$52.50 per share in cash. Moreover, the Taubman family will sell one-third of its ownership interest at the transaction price and remain a 20% partner in TRG. Subject to a number of approvals as well as other customary closing conditions, this transaction is expected to close in mid-2020.

Moreover, on Feb 19, Authentic Brands Group (ABG), Simon Property and Brookfield Property Partners announced the acquisition of fast fashion retailer, Forever 21, which had filed for bankruptcy earlier. The companies have struck a partnership, under which ABG and Simon Property will each own 37.5%, and Brookfield will own 25% of the intellectual property and operating businesses.

Note*: Certain information will be updated once the company files its latest 10-K.

Note**: All EPS numbers presented in this report represent 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:

- ▲ Simon Property enjoys a wide exposure to retail assets across the United States. Moreover, the company's international presence fosters sustainable long-term growth as compared with its domestically focused peers. The company's ownership stake in Klépierre facilitates the expansion of its global footprint, which gives it access to premium retail assets in the high barrier-to-entry markets of Europe. We believe that diversification, with respect to both product and geography largely insulates Simon Property from market volatility and helps it to consistently post a decent performance.
- ▲ Amid retail apocalypse narrative, adoption of an omni-channel strategy and successful tie-ups with premium retailers has been a saving grace for Simon Property. The company has been actively restructuring its portfolio, aiming at premium acquisitions and transformative redevelopments. In fact, for the past years, the company has been investing in billions to transform its properties focused on creating value and drive footfall at the properties. The transformational plans include addition of hotels, restaurants, residences and luxury stores. Additionally, the company is undertaking strategic measures to help online retailers fortify their physical presence. Moreover, the company's online retail platform, weaved with an omni-channel strategy, will likely be accretive to Simon Property's long-term growth. Also, Simon Property is exploring mixed-use development option which has gained immense popularity in recent years as it helps catch the attention of people who prefer to live, work and play in the same area. Its investments in best-in-class operators across the hospitality, health and wellness, dining and entertainment sectors, as part of its effort to bolster its consumer-facing entertainment and lifestyle platform augur well for long-term growth.
- ▲ A couple of recent moves of Simon Property are encouraging. Particularly, on Feb 10, the company announced that it has agreed to acquire Taubman Centers in a deal valued at \$3.6 billion. For Simon Property, the deal is expected to be at least 3% accretive to its FFO per share on an annualized basis, starting immediately upon consummation of the transaction. Moreover, ABG, Simon Property and Brookfield Property Partners recently announced the acquisition of fast fashion retailer, Forever 21, which had filed for bankruptcy. The companies have struck a partnership, under which ABG and Simon Property will each own 37.5%, while Brookfield will own 25% of the intellectual property and operating businesses. Similar to that of the Aéropostale's move earlier, the latest efforts are expected to aid Forever 21 stores continue operating across the United States and international territories. This LA-born brand is a global fashion retailer of women's, men's, and kid's clothing, accessories, and footwear, as well as beauty.
- ▲ The company has been active in restructuring its portfolio and is aiming at premium acquisitions and transformative redevelopments. In fact, at the end of fourth-quarter 2019, Simon Property had redevelopment and expansion projects, including the redevelopment of former department store spaces, ongoing at more than 30 properties in the United States, Asia and Europe. The company's share of costs of all new development and redevelopment projects under construction was \$1.8 billion at the end of the quarter. The company has also resorted to micro-retail modeling that offers store units ranging from 20-200 square feet of space. With such a huge pipeline, the company is well poised to effectively leverage the improving spending habits of wealthier customers amid a healthy economy.
- ▲ Simon Property has a solid and improving balance sheet. The company had more than \$7.1 billion of liquidity as of Dec 31, 2019. This comprised cash on hand, including available capacity under the company's revolving credit facilities, and its share of joint-venture cash. Notably, during 2019, the company accomplished a three-tranche senior notes offering, aggregating \$3.5 billion, having a weighted average coupon rate of 2.61% and weighted average term of 15.9 years. Moreover, the company retired all or part of four series of senior notes totaling around \$2.6 billion (USD equivalent) with a combined weighted average coupon rate of 3.76%.
- ▲ Finally, solid dividend payouts are arguably the biggest enticement for REIT shareholders and Simon Property remains committed to that. Concurrent with its second-quarter 2019 earnings release, the company announced a quarterly dividend of \$2.10 per share, denoting an increase of 2.4% sequentially and 5% year over year. Thereafter, the company has maintained the same dividend rate. In fact, the company has steadily raised its dividend over the past years, increasing from \$3.50 in 2011 to the present annualized rate of \$8.40 per share. Such moves boost investors' confidence in the stock.

Simon Property's diversified exposure to retail assets in the United States and abroad, efforts to support omni-channel retailing, portfolio-restructuring initiatives and healthy balance sheet augur well.

Reasons To Sell:

- ▼ With the shift in consumers' preferences toward online channels for purchases, bankruptcies and store closures have emerged as pressing concerns for retail REITs and Simon Property is not immune to such choppy environment. Though the company is striving to counter this pressure through various initiatives, implementation of such measures requires a decent upfront cost and therefore, will limit any robust growth in profit margins in the near term.
- ▼ Although interest rate levels are low presently, any hike in future is likely to be a challenge for the company. Essentially, rising rates imply higher borrowing cost for the company, which would affect its ability to purchase or develop real estate and lower dividend payouts as well. Moreover, the dividend payout itself might become less attractive than the yields on fixed income and money market accounts.
- ▼ At the end of fourth-quarter 2019, Simon Property had redevelopment and expansion projects, including the redevelopment of former department store spaces, ongoing at more than 30 properties in the United States, Asia and Europe. The company's share of costs of all new development and redevelopment projects under construction was around \$1.8 billion at the end of the reported quarter. This increases operational risks, exposing the company to rising construction costs, entitlement delays and lease-up risks.
- ▼ Shares of Simon Property have declined 23.5% in the past year, as against the industry's growth of 1.4%. Moreover, the trend in 2020 FFO per share estimate revisions does not indicate an upbeat outlook for the company, as estimates have moved 1.2% south over the past month. Therefore, given the above-mentioned concerns and negative estimate revisions, there is limited upside potential to the stock.

Shrinking footfall at malls amid shift of consumers toward online channels, store closures and bankruptcy of retailers will likely keep denting any robust growth of the company in the near term.

Last Earnings Report

Simon Property Q4 FFO & Revenues Beat Estimates, NOI Up

Simon Property's fourth-quarter 2019 FFO per share of \$2.96 surpassed the Zacks Consensus Estimate of \$2.95. However, the reported tally comes in 8.4% lower than the year-ago quarter's FFO of \$3.23 per share.

Results reflected increase in leasing spread per square foot at the company's U.S. malls and Premium Outlets.

Further, the company generated revenues of nearly \$1.49 billion in the quarter, outpacing the Zacks Consensus Estimate of \$1.47 billion. The revenue figure also comes in 1.9% higher than the prior-year quarter's reported tally.

For full-year 2019, the FFO per share came in at \$12.04, matching the Zacks Consensus Estimate but lower than the prior-year tally of \$12.13. Moreover, revenues witnessed 1.9% year-over-year growth to \$5.7 billion.

Inside the Headline Numbers

For the U.S. Malls and Premium Outlets portfolio, occupancy was 95.1% as of Dec 31, 2019. Retailer sales per square foot came in at \$693 for the trailing 12-month period, marking 4.8% growth. Base minimum rent per square feet was \$54.59 as of Dec 31, 2019. Furthermore, leasing spread per square foot for the trailing 12-month period ended Dec 31, 2019 increased 14.4% to \$7.83.

Total portfolio net operating income (NOI) growth for the reported quarter came in at 1.7%. Comparable-property NOI growth for the same period came in at 1.7%.

At the end of fourth-quarter 2019, Simon Property had redevelopment and expansion projects, including the redevelopment of former department store spaces, ongoing at more than 30 properties in the United States, Asia and Europe. The company's share of costs of all new development and redevelopment projects under construction was around \$1.8 billion at the end of the reported quarter.

Balance-Sheet Position

The company exited 2019 with cash and cash equivalents of \$669.4 million compared with the \$514.3 million reported at the end of December 2018.

Notably, during the October-December, the company accomplished a three-tranche senior notes offering, aggregating \$3.5 billion, having a weighted average coupon rate of 2.61% and weighted average term of 15.9 years. Moreover, it retired all or part of four series of senior notes totaling around \$2.6 billion (USD equivalent).

Simon Property had more than \$7.1 billion of liquidity as of Dec 31, 2019. This comprised cash on hand, including available capacity under the company's revolving credit facilities, and its share of joint-venture cash.

Outlook

Simon Property expects 2020 FFO per share in the range of \$12.25-\$12.40.

Quarter Ending **12/2019**

Report Date	Feb 04, 2020
Sales Surprise	1.49%
EPS Surprise	0.34%
Quarterly EPS	2.96
Annual EPS (TTM)	12.04

Recent News

ABG, Simon, and Brookfield Partners for Forever 21 Acquisition – Feb 19, 2020

Authentic Brands Group (ABG), Simon Property and Brookfield Property Partners announced the acquisition of fast fashion retailer, Forever 21, which had filed for bankruptcy earlier. The companies have struck a partnership, under which ABG and Simon Property will each own 37.5%, and Brookfield will own 25% of the intellectual property and operating businesses.

Similar to that of the Aéropostale's move earlier, the latest efforts are expected to aid Forever 21 stores continue operating across the United States and international territories. This LA-born brand is a global fashion retailer of women's, men's, and kid's clothing, accessories, and footwear, as well as beauty.

Forever 21 is working with several landlords to continue store operations in key regions and will convert its present, owned store operations in Central America, South America, Mexico, the Philippines, and the Caribbean to a licensed partnership model. Moreover, the new ownership group will engage in working with present and new partners to grow Forever 21 across key territories, including South America, Western and Eastern Europe, China, Southeast Asia, Middle East, and India.

Simon Property to Acquire Taubman Centers in \$3.6B Deal – Feb 10, 2020

Simon Property Group has agreed to acquire Taubman Centers, in a deal valued at \$3.6 billion. Simon Property will buy an 80% ownership stake in The Taubman Realty Group Limited Partnership ("TRG"). Simon Property will acquire all of Taubman common stock for \$52.50 per share in cash. Additionally, the Taubman family will sell one-third of its ownership interest at the transaction price and remain a 20% partner in TRG.

TRG is engaged in the ownership, management and/or leasing of 26 super-regional shopping centers in the United States and Asia. It will continue being managed by the current executive team, under the leadership of Taubman chairman, president and chief executive officer, Robert S. Taubman, in association with Simon, the company noted.

For Simon Property, which expects to fund the total cash consideration of \$3.6 billion with existing liquidity, the deal is expected to be at least 3% accretive to its FFO per share on an annualized basis, starting immediately upon consummation of the transaction.

For Taubman shareholders, this is a welcome move as the transaction price of \$52.50 per share in cash denoted a 51% premium to Taubman Centers' closing price on Feb 7. Also, it represented a good 19% premium to total enterprise value, which includes debt and preferred equity. TRG's capacity to invest in innovative retail environments for retailers and consumers will get a boost, helping the delivery of attractive shopping and entertainment experiences to consumers.

Subject to a number of approvals, including two-thirds of the outstanding Taubman voting stock and a majority of the outstanding Taubman voting stock not held by the Taubman family as well as other customary closing conditions, this transaction is expected to close in mid-2020. Notably, the Taubman family, representing around 29% of the outstanding Taubman voting stock, has already decided to vote in favor of the transaction.

Simon Extends Online Return Services to 52 Centers – Jan 16, 2020

Simon Property announced the expansion of online return services available at its malls to several other locations. The presence of the Happy Returns service at the participating centers will enable an increasing number of customers to return and exchange purchases made online at malls where Simon Guest Services is available.

Simon Property signed up for the program in 2017 at five of its properties in a bid to attract online purchasers back into brick-and mortar retailing, before recently expanding these services to 52 locations. With this, the company has the largest network of Return Bar counters in the shopping-center industry.

Using Happy Returns' services, shoppers will be able to return online purchases made from select retailers to the Simon Guest Services desk, with an immediate credit. Hence, customers can omit the lengthy return process of packing and shipping items. Moreover, refunds can be made faster.

While customers can experience an easy return process, it also provides them an opportunity to find what they need at Simon Property's retail centers. Notably, there is a high probability of shoppers making returns to make additional purchases from malls. Hence, the expansion of the service is a strategic fit to drive traffic through online returns.

Dividend Update

On Feb 4, 2020, concurrent with its fourth-quarter 2019 earnings release, Simon Property announced a quarterly dividend of \$2.10 per share, flat sequentially, and up 2.4% year over year. This dividend will be paid on Feb 28, to stockholders of record as of Feb 14, 2020.

Valuation

Simon Property's shares have declined 23.5% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector have rallied 1.4% and 8.7%, over the past year, respectively.

The S&P 500 Index is up 20.5% over the past year.

The stock is currently trading at 11.23X forward 12-month FFO, which compares with the 15.09X for the Zacks sub-industry, 14.97X for the Zacks sector and 19.39X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 20.11X and as low as 10.49X, with a 5-year median of 14.45X. Our neutral recommendation indicates that the stock will perform in line with the market. Our \$149 price target reflects 11.91X FFO.

The table below shows summary valuation data for SPG.

Valuation Multiples - SPG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	11.23	15.09	14.97	19.39
	5-Year High	20.11	19.44	16.21	19.39
	5-Year Low	10.49	12.57	12.01	15.18
	5-Year Median	14.45	15.11	14.15	17.47
P/S F12M	Current	7.83	8.35	6.55	3.59
	5-Year High	12.55	13.91	6.65	3.59
	5-Year Low	7.36	7.13	5.39	2.54
	5-Year Median	9.67	8.29	6.04	3
P/B TTM	Current	15.7	3.37	2.85	4.68
	5-Year High	16.67	5.57	2.89	4.68
	5-Year Low	8.98	2.83	1.83	2.85
	5-Year Median	12.13	3.41	2.51	3.62

As of 02/20/2020

Industry Analysis Zacks Industry Rank: Bottom 13% (221 out of 255)



Top Peers

Federal Realty Investment Trust (FRT)	Neutral
Kimco Realty Corporation (KIM)	Neutral
Macerich Company (The) (MAC)	Neutral
Pennsylvania Real Estate Investment Trust (PEI)	Neutral
Taubman Centers, Inc. (TCO)	Neutral
Washington Prime Group Inc. (WPG)	Neutral
CBL & Associates Properties, Inc. (CBL)	Underperform
Tanger Factory Outlet Centers, Inc. (SKT)	Underperform

Industry Comparison Industry: Reit And Equity Trust - Retail				Industry Peers		
	SPG Neutral	X Industry	S&P 500	FRT Neutral	KIM Neutral	MAC Neutral
VGM Score	F	-	-	F	D	D
Market Cap	45.03 B	2.73 B	24.34 B	9.66 B	8.01 B	3.31 B
# of Analysts	10	6	13	9	11	8
Dividend Yield	5.98%	4.93%	1.78%	3.29%	5.91%	12.80%
Value Score	D	-	-	D	D	C
Cash/Price	0.02	0.02	0.04	0.01	0.02	0.04
EV/EBITDA	16.09	16.11	14.18	18.58	14.88	14.48
PEG Ratio	2.54	3.80	2.09	3.76	2.82	5.75
Price/Book (P/B)	15.70	1.92	3.30	3.89	1.62	1.17
Price/Cash Flow (P/CF)	13.08	11.72	13.49	16.24	11.63	7.74
P/E (F1)	11.29	14.40	19.28	19.70	12.70	6.67
Price/Sales (P/S)	7.82	6.58	2.68	10.32	6.91	3.57
Earnings Yield	8.87%	6.94%	5.17%	5.08%	7.86%	14.97%
Debt/Equity	8.42	1.03	0.70	1.41	1.10	1.98
Cash Flow (\$/share)	10.74	2.13	7.03	7.86	1.63	3.03
Growth Score	D	-	-	D	D	F
Hist. EPS Growth (3-5 yrs)	6.27%	2.21%	10.84%	5.05%	-0.59%	-0.98%
Proj. EPS Growth (F1/F0)	3.48%	1.43%	7.09%	2.39%	1.54%	-0.74%
Curr. Cash Flow Growth	-9.18%	7.57%	6.72%	22.11%	-14.81%	1.99%
Hist. Cash Flow Growth (3-5 yrs)	5.28%	7.64%	8.25%	12.40%	1.91%	-3.71%
Current Ratio	1.08	1.08	1.22	1.22	NA	0.84
Debt/Capital	89.33%	50.49%	42.37%	58.01%	52.40%	66.41%
Net Margin	36.52%	22.45%	11.56%	37.81%	35.43%	10.44%
Return on Equity	65.24%	5.91%	16.80%	14.77%	7.95%	3.28%
Sales/Assets	0.18	0.13	0.55	0.14	0.10	0.10
Proj. Sales Growth (F1/F0)	-0.43%	1.49%	3.90%	3.09%	0.55%	-0.80%
Momentum Score	C	-	-	F	B	F
Daily Price Chg	2.57%	1.45%	0.01%	1.59%	2.16%	-0.13%
1 Week Price Chg	-1.49%	0.29%	1.65%	-0.62%	-1.83%	-2.23%
4 Week Price Chg	-4.56%	-4.27%	0.36%	-2.61%	-7.29%	-8.76%
12 Week Price Chg	-7.07%	-7.49%	4.39%	-3.59%	-12.47%	-13.25%
52 Week Price Chg	-22.85%	-3.48%	15.29%	-5.06%	7.54%	-46.68%
20 Day Average Volume	2,422,971	804,479	1,992,841	469,173	3,875,063	3,961,897
(F1) EPS Est 1 week change	-0.04%	0.00%	0.00%	-0.13%	0.00%	1.61%
(F1) EPS Est 4 week change	-1.68%	-0.12%	-0.02%	0.08%	-1.16%	-3.22%
(F1) EPS Est 12 week change	-1.77%	-1.41%	-0.17%	-1.68%	-1.69%	-4.55%
(Q1) EPS Est Mthly Chg	0.33%	0.00%	-0.48%	-0.73%	0.51%	-2.82%

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	D
Momentum Score	C
VGM Score	F

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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