

Tractor Supply Company (TSCO)

\$97.83 (As of 02/18/20)

Price Target (6-12 Months): **\$104.00**

Long Term: 6-12 Months | **Zacks Recommendation:** **Neutral**
 (Since: 09/27/19)
 Prior Recommendation: Outperform

Short Term: 1-3 Months | **Zacks Rank:** (1-5) **4-Sell**
 Zacks Style Scores: **VGM:A**
 Value: C | Growth: A | Momentum: C

Summary

Despite lower-than-expected fourth-quarter 2019 results, shares of Tractor Supply continue to witness momentum on a favorable outlook for 2020. Consequently, the stock is trading ahead of the industry year to date. Notably, the company's sales and earnings improved year over year. Earnings gained from robust margins due to stringent cost controls, solid execution and effective inventory management. Gross margins benefited from better management of direct product margins and lower freight costs. Moreover, its Neighbor's Club loyalty program is gaining traction. However, muted comps growth due to weakness in cold weather seasonal and holiday discretionary categories hurt top lines to some extent. Additionally, higher SG&A expenses are likely to be a headwind in 2020. Further, the company's view for first-quarter 2020 remains soft.

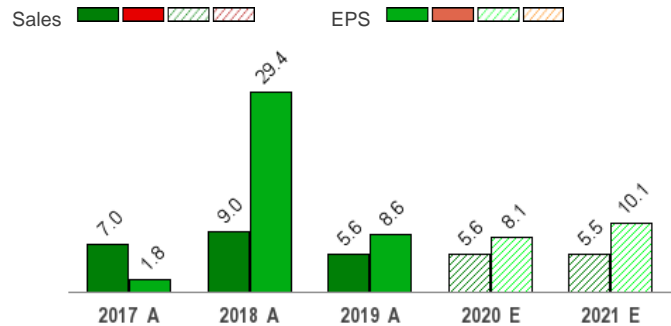
Price, Consensus & Surprise



Data Overview

52 Week High-Low **\$114.25 - \$88.02**
 20 Day Average Volume (sh) **1,698,339**
 Market Cap **\$11.6 B**
 YTD Price Change **4.7%**
 Beta **1.04**
 Dividend / Div Yld **\$1.40 / 1.4%**
 Industry **[Retail - Miscellaneous](#)**
 Zacks Industry Rank **Top 42% (106 out of 255)**

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise **-1.6%**
 Last Sales Surprise **-2.1%**
 EPS F1 Est- 4 week change **-3.8%**
 Expected Report Date **04/23/2020**
 Earnings ESP **0.0%**

P/E TTM **20.9**
 P/E F1 **19.3**
 PEG F1 **1.7**
 P/S TTM **1.4**

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	2,028 E	2,639 E	2,238 E	2,474 E	9,308 E
2020	1,907 E	2,499 E	2,100 E	2,330 E	8,823 E
2019	1,822 A	2,354 A	1,984 A	2,192 A	8,352 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.71 E	\$2.18 E	\$1.27 E	\$1.50 E	\$5.57 E
2020	\$0.63 E	\$1.96 E	\$1.12 E	\$1.32 E	\$5.06 E
2019	\$0.63 A	\$1.80 A	\$1.04 A	\$1.21 A	\$4.68 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 02/18/2020. The reports text is as of 02/19/2020.

Overview

Headquartered in Brentwood, TN, Tractor Supply Company is the largest retail farm and ranch store chain in the United States. The company focuses on recreational farmers and ranchers as well as tradesmen and small businesses. It offers a wide array of merchandise such as livestock, pet and animal products, maintenance products for agricultural and rural use, hardware and tools, lawn and garden power equipment, truck and towing products, and work apparel.

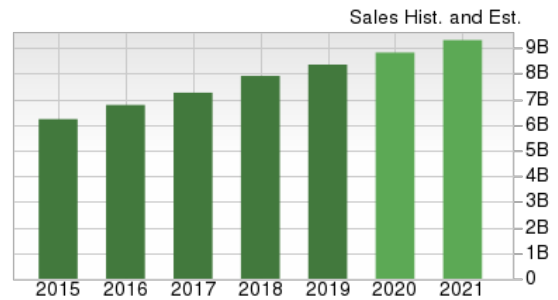
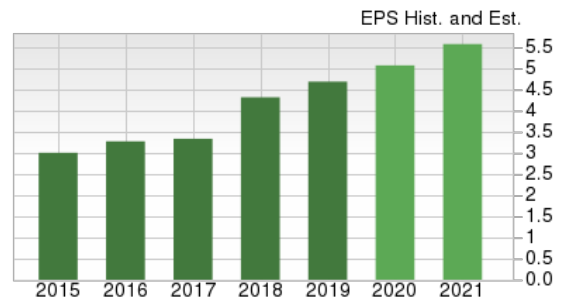
Stores of Tractor Supply are primarily located in rural areas and the suburbs of major cities, which have inside selling space of 15,000–20,000 square feet with a similar area of outside space, used to demonstrate agricultural fencing, livestock equipment and horse stalls. Petsense stores have roughly 5,500 square feet of inside selling space. For Tractor Supply retail locations, the company has a standard design for the new built-to-suit locations, including nearly 15,500 square feet of inside selling space.

Tractor Supply's broad assortment of products is tailored to meet the regional and geographic needs of its markets. Moreover, the retailer's full line of product offerings is supported by a strong in-stock inventory position with an average of 16,000–19,500 unique products per store.

Apart from selling nationally recognized branded merchandise, the company also markets an increasing list of products under its "private-label programs." The latter include Masterhand and Job Smart (tools and tool chests), Dumor and Producers Pride (livestock feed) and Retriever and Paws 'n Claws (pet foods). Further, the company recently acquired 100% stake in Petsense, to fortify its presence in the pet specialty space.

Tractor Supply operates retail stores under the names Tractor Supply Company, Del's Feed & Farm Supply, and Petsense as well as operate websites under the names TractorSupply.com and Petsense.com. Its online selling websites are expected to offer expanded assortment of products beyond in-store as well as boost store traffic through buy online, pickup in-store and ship to store programs.

As of Dec 28, 2019, the company operated 1,844 Tractor Supply stores across 49 states and 180 Petsense stores.



Reasons To Buy:

▲ **Robust 2020 View, Stock Performance:** Shares of Tractor Supply have witnessed momentum in the year to date period, reflecting a growth of 4.7% against the industry's decline of 0.1%. Most of the recent momentum in stock price can be attributed to a robust outlook for 2020, despite lower-than-expected fourth-quarter 2019 results. For 2020, the company projects net sales of \$8.75-\$8.9 billion, reflecting a growth of 5-6.5%. Comparable store sales (comps) are likely to increase 1.5-3%. Moreover, it envisions net income of \$575-\$595 million for 2020, with earnings per share of \$4.90-\$5.10. The company's earnings per share view shows an increase from \$4.68 reported in 2019.

Tractor Supply is gaining from the roll out of capabilities like stockyard in-store kiosk and mobile POS in all its stores, along with enhancing credit card offerings and investments in supply chain..

▲ **Margins Aid Bottom-Line Y/Y:** In fourth-quarter 2019, Tractor supply's adjusted earnings per share improved 9% on a year over year basis. Despite softer-than-expected top line performance, the company's results benefited from stringent cost controls, solid execution and effective inventory management, which led to operating margin growth. This in turn aided the bottom line. Notably, gross margin improved 26 basis points (bps), driven by lower freight costs as a percent of sales and better management of direct product margins as the company continues to mitigate the impacts of tariffs. Despite higher SG&A expenses, the company's adjusted operating margin expanded 23 bps on robust gross margin growth. For 2020, management envisions modest gross margin improvement, while it expects operating margin of 8.9%. Operating margin for the year reflects a growth of nearly 20 bps from 8.7% in 2019.

▲ **Strategies to Drive Growth:** Given the changing consumer trends, Tractor Supply is focused on integrating its physical and digital operations to offer consumers a seamless shopping experience. Incidentally, the company remains on track with the 'ONETractor' strategy that is aimed at connecting store and online shopping. Backed by this initiative, the company continues to drive growth, build customer-centric engagement, offer suitable products and services, and reinforce core infrastructure capabilities. Moreover, Tractor Supply is benefiting from the roll out of capabilities like stockyard in-store kiosk and mobile point-of-sale (POS) in all its stores, as well as enhancing of the Tractor Supply credit card offering, and investments in its supply chain. The company's investments in omni-channel business, including its Buy Online Pick Up in Store and direct delivery to store facilities, have helped in recording double-digits digital sales growth for the 30th straight quarter.

The company is progressing well with its Neighbor's Club loyalty program, which witnessed robust growth in the fourth quarter with roughly 15 million members and a retention rate of 80% by the end of 2019. Further, the program reflects gains related to increased penetration of sales, greater frequency and higher average ticket sales by these customers. To top this, the improved private label credit card program comes with an additional \$5 rewards for Neighbor's Club members on every spending of \$100. This is in addition to the 5% reward that private label credit card holders are already eligible for.

▲ **Store Growth Initiatives to Boost Sales:** Tractor Supply is persistently focusing on its growth initiatives, which include expansion of store base and incorporation of technological advancements to induce traffic and drive the top line. The company's sales and comps have been considerably gaining from the addition of new stores every quarter. Moreover, the company expects to drive comps by improving marketing and merchandising initiatives as well as supply chain efficiencies. The company is well positioned to expand store base, remaining on track to increase its domestic store to 2,500 in the long term. In the quarter under review, Tractor Supply opened 30 namesake and one Petsense stores, while it shuttered one Petsense outlet. For 2020, management expects to open 80 namesake stores and 10-15 Petsense stores. Store expansion is likely to keep Tractor Supply's sales momentum alive throughout 2020 and beyond.

▲ **Efficient Inventory Management:** Over the years, Tractor Supply has been focused on efficiently managing its inventories to minimize the impact of weather on its business and capitalize on seasonal demand. With regard to this, the company is focusing on enhancement of IT systems and supply chain. It is on track with constant investments in new systems, including demand planning, improved pricing, inventory allocation, all of which are directed toward generating supply chain efficiencies in order to better manage global inventories. Additionally, it remains focused on the execution of digital priorities lending the support needed to bolster growth at its merchandising, customer facing and logistics capabilities. The company's inventories were in good shape at the end of the fourth quarter at \$1.6 billion, which reflected a growth of 0.8% on a per-store basis. This positions it well to enter 2020 on strong note by easily wrapping up winter inventory and transitioning for the spring season.

Reasons To Sell:

- ▼ **Stock Looks Overvalued:** Considering price-to-earnings (P/E) ratio, Tractor Supply looks pretty overvalued when compared with the industry and the S&P 500. The stock has a trailing 12-month P/E ratio of 20.9x, which is below the median level of 21.94x and the high level of 25.16x, scaled in the past year. On the contrary, the trailing 12-month P/E ratio is 15.72x for the industry. Given these factors, we believe that the stock is quite stretched from the P/E aspect.
- ▼ **Muted Comps Growth:** Tractor Supply's top and bottom line improved year over year in fourth-quarter 2019, despite missing the Zacks Consensus Estimate. However, the top line was below company expectations, mainly marred by unseasonable winter weather across many of its markets. Furthermore, it witnessed comps growth of just 0.1%, led by 1.8% increase in average ticket, which was offset by 1.7% decline in comparable store transaction count. Moreover, comps gains from strength in the consumable, usable and edible categories, were mostly offset by weakness in cold weather seasonal and holiday discretionary categories. Warmer-than-usual winter weather in December affected the sales of seasonal products like heating equipment and insulated outerwear. Further, sluggishness in certain holiday discretionary categories was mainly due to six fewer selling days between Thanksgiving and Christmas.
- ▼ **Soft Q1 2020 View:** Though Tractor Supply outlined a strong view for 2020, it expects the second half of 2020 to be stronger than the first half. Consequently, the company expects the lowest comps performance of 2020 to occur in first-quarter 2020. This could be attributed to the continuation of the unseasonably warm weather in January 2020. Further, it expects operating profit to be the most pressured in the first quarter owing to the incremental cost from the Frankfort distribution center, a discrete executive transition cost of about 2 cents per share and cycling the toughest comps of the year. Backed by the soft operating profit performance, it anticipates net income and earnings per share to be flat in the first quarter of 2020.
- ▼ **Higher SG&A Expenses:** Though Tractor Supply remains committed toward enhancing business via store-growth and omni-channel initiatives, higher investments in infrastructure and technology remain concerning. These have led to an increase in SG&A expenses over the past several quarters. Notably, SG&A expenses, including depreciation and amortization, rose 2.9% in the fourth quarter along with 3 bps increase as a percentage of sales. This increase was mainly attributed to incremental costs related to its new distribution facility in Frankfurt, NY, and rise in other costs related to occupancy and store personnel. These expenses were somewhat offset by decreased incentive compensation and improved cost management. For 2020, management anticipates slight increase in SG&A owing to continued wage pressure and investments in supply chain and digital platforms.
- ▼ **Seasonality Risk:** Tractor Supply's business is highly seasonal, with sales and profits soaring in the spring and winter selling seasons on the back of seasonal demand for its merchandise offering. Unseasonable weather, heavy precipitation, drought conditions and early or late frosts may have a material impact on the company's financial condition and its operational results. In fact, fourth-quarter top line performance was affected by adverse seasonal weather trends. Unseasonably warm temperatures in December hurt sales for many seasonal categories.

Tractor Supply delivers muted comps growth in Q4 on soft sales of winter seasonal items and some holiday discretionary products, despite strength in C.U.E categories.

Last Earnings Report

Tractor Supply Earnings & Sales Miss Q4 Estimates

Tractor Supply has delivered lower-than-expected results in fourth-quarter 2019. Results were hurt by soft comparable store sales performance in the reported quarter, owing to unfavorable weather that affected sales of seasonal products. Also, sluggishness in certain holiday discretionary categories impacted the company's performance.

Q4 Highlights

Tractor Supply's adjusted earnings were \$1.21 per share, which lagged the Zacks Consensus Estimate of \$1.23. However, the bottom line improved 9% from the prior-year quarter. Including the after-tax impact of the executive transition agreement, the company reported earnings of \$1.02 per share.

Net sales grew 2.7% to \$2,191.8 million but missed the Zacks Consensus Estimate of \$2,243 million. The year-over-year improvement was driven by comps increase of 0.1%, led by growth of 1.8% in average ticket. Meanwhile, comparable store transaction count declined 1.7%.

Keeping in these lines, comparable store sales performance was backed by strength in the consumable, usable and edible categories. However, adverse weather and softness in certain holiday discretionary categories acted as deterrents.

Margins & Costs

Gross profit rose 3.6% year over year to \$741.8 million, with gross margin expansion of 26 basis points (bps) to 33.8%. The uptick was driven by lower freight costs as a percent of sales and better management of direct product margins.

Selling, general and administrative (SG&A) expenses — including depreciation and amortization — as a percentage of sales grew 3 bps to 25.2%. Higher costs related to a new distribution facility in Frankfort, NY, along with rise in other costs related to occupancy and store personnel led to the upside. These expenses were somewhat offset by decreased incentive compensation and improved cost management.

Financial Position

Tractor Supply ended the quarter with cash and cash equivalents of \$84.2 million, long-term debt of \$366.5 million, and total stockholders' equity of \$1,567.1 million.

The company returned \$696 million via share repurchases worth \$533.3 million and dividends of \$162.7 million in 2019. Additionally, it incurred capital expenditure of \$217.5 million, while generated cash flow from operating activities of \$811.7 million.

For 2020, management expects share buybacks of \$450-\$550 million compared with \$525-\$550 million mentioned earlier. Moreover, the company continues to expect capital expenditure of \$225-\$275 million.

Store Update

In the quarter under review, Tractor Supply opened 30 namesake and one Petsense stores, while shuttered one Petsense outlet. As of Dec 28, 2019, the company operated 1,844 Tractor Supply stores across 49 states and 180 Petsense stores in 26 states.

For 2020, management expects to open 80 namesake stores and 10-15 Petsense stores.

Outlook

Additionally, management issued guidance for 2020. Tractor Supply now projects net sales of \$8.75-\$8.9 billion for the year, with comps growth of 1.5-3%. Operating margin is estimated to be 8.9%.

Moreover, the company envisions net income of \$575-\$595 million for 2020. Also, it expects earnings per share of \$4.9-\$5.1 for 2020, whereas it reported \$4.68 in 2019.

Quarter Ending **12/2019**

Report Date	Jan 30, 2020
Sales Surprise	-2.12%
EPS Surprise	-1.63%
Quarterly EPS	1.21
Annual EPS (TTM)	4.68

Recent News

Tractor Supply Approves Quarterly Dividend - Feb 6, 2020

Tractor Supply announced a quarterly cash dividend of 35 cents per share, payable Mar 10, 2020, to stockholders of record as on Feb 24.

Tractor Supply Expands Feed Products With Triple Crown Launch – Jan 16, 2020

Tractor Supply joined forces with Triple Crown Nutrition, Inc. to launch Triple Crown premium products in a bid to expand its horse feed offerings. Further, selective products from Triple Crown will be made available in most of Tractor Supply's stores from Jan 27.

With the partnership, Tractor Supply will be able to offer a wider range of products — including Triple Crown Senior, Complete and Lite, and Safe Starch Fortified Forage. This move underscores management's commitment toward providing premium quality products to its equine customers and improve their shopping experience.

Tractor Supply Opts Microsoft to Renew Technology Structure – Jan 9, 2020

Tractor Supply is on track with its 'ONETractor' initiative. In sync with the initiative, the company has selected Microsoft Corporation as its preferred and strategic cloud provider to modernize its technology structure, including the website and enterprise analytics platform.

The agreement will enable Tractor Supply to leverage cloud solutions with Microsoft Azure and Microsoft Office 365 to drive in-store and digital experience. Moreover, the analytics engine is likely to offer improved insights and facilitate deeper personalization to cater to enhanced consumers' shopping experience. This also aims at driving the enterprise-wide analytics through business intelligence. It will also make innovations and improvements in its products and services according to consumers' needs.

Valuation

Tractor Supply shares are up 4.7% in the year-to-date period and nearly 0.3% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 0.1% but the Zacks Retail-Wholesale sector is up 6.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 12.3% but the sector is up 18.9%.

The S&P 500 index is up 4.6% in the year-to-date period and 20.3% in the past year.

The stock is currently trading at 19.12X forward 12-month earnings, which compares to 15.63X for the Zacks sub-industry, 26.22X for the Zacks sector and 19.3X for the S&P 500 index.

Over the past five years, the stock has traded as high as 28.85X and as low as 13.8X, with a 5-year median of 20.06X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$104 price target reflects 20.33X forward 12-month earnings.

The table below shows summary valuation data for TSCO

Valuation Multiples - TSCO					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.12	15.63	26.22	19.3
	5-Year High	28.85	20.29	26.22	19.34
	5-Year Low	13.8	13.74	19.07	15.18
	5-Year Median	20.06	16.08	22.99	17.47
P/S F12M	Current	1.3	1.13	1.09	3.57
	5-Year High	1.96	1.36	1.11	3.57
	5-Year Low	0.86	0.95	0.8	2.54
	5-Year Median	1.33	1.15	0.92	3
EV/EBITDA TTM	Current	15.1	15.32	15.89	12.31
	5-Year High	17.63	17.58	15.89	12.85
	5-Year Low	8.21	12.03	10.79	8.47
	5-Year Median	13.47	15.07	12.41	10.7

As of 02/18/2020

Industry Analysis Zacks Industry Rank: Top 42% (106 out of 255)



Top Peers

Archer Daniels Midland Company (ADM)	Outperform
Calavo Growers, Inc. (CVGW)	Outperform
MarineMax, Inc. (HZO)	Outperform
Adecoagro S.A. (AGRO)	Neutral
Calyxt, Inc. (CLXT)	Neutral
KAR Auction Services, Inc (KAR)	Neutral
Build-A-Bear Workshop, Inc. (BBW)	Underperform
Limoneira Co (LMNR)	Underperform

Industry Comparison Industry: Retail - Miscellaneous				Industry Peers		
	TSCO Neutral	X Industry	S&P 500	CLXT Neutral	CVGW Outperform	HZO Outperform
VGM Score	A	-	-	F	C	B
Market Cap	11.58 B	1.32 B	24.50 B	210.56 M	1.34 B	454.21 M
# of Analysts	12	4	13	2	2	4
Dividend Yield	1.43%	0.00%	1.78%	0.00%	1.45%	0.00%
Value Score	C	-	-	F	D	B
Cash/Price	0.01	0.10	0.04	0.32	0.01	0.08
EV/EBITDA	14.80	7.17	14.25	-5.99	17.09	6.30
PEG Ratio	1.72	1.52	2.08	NA	NA	NA
Price/Book (P/B)	7.39	1.23	3.28	2.91	4.68	1.19
Price/Cash Flow (P/CF)	15.23	6.06	13.68	NA	20.04	11.79
P/E (F1)	19.52	13.50	19.12	NA	21.91	11.03
Price/Sales (P/S)	1.39	0.35	2.67	59.58	1.12	0.35
Earnings Yield	5.17%	7.58%	5.23%	-18.94%	4.56%	9.05%
Debt/Equity	1.53	0.92	0.70	0.25	0.02	0.10
Cash Flow (\$/share)	6.43	3.35	6.93	-0.82	3.79	1.79
Growth Score	A	-	-	F	C	C
Hist. EPS Growth (3-5 yrs)	11.81%	11.59%	10.84%	NA	14.35%	24.93%
Proj. EPS Growth (F1/F0)	8.21%	8.75%	7.11%	-2.54%	14.90%	17.33%
Curr. Cash Flow Growth	7.18%	8.16%	7.81%	5.45%	17.65%	-1.75%
Hist. Cash Flow Growth (3-5 yrs)	9.40%	8.72%	8.25%	NA	15.90%	23.56%
Current Ratio	1.43	1.41	1.24	12.38	1.41	1.39
Debt/Capital	60.48%	55.02%	42.37%	20.26%	1.86%	8.71%
Net Margin	6.73%	3.82%	11.76%	-1,016.27%	3.06%	3.09%
Return on Equity	37.09%	11.33%	16.86%	-43.09%	18.59%	11.22%
Sales/Assets	1.56	1.54	0.55	0.03	3.00	1.66
Proj. Sales Growth (F1/F0)	5.64%	0.42%	4.05%	176.00%	6.63%	7.78%
Momentum Score	C	-	-	D	F	C
Daily Price Chg	-0.35%	0.42%	-0.38%	0.00%	0.29%	4.92%
1 Week Price Chg	1.68%	-0.15%	1.65%	2.08%	0.97%	-0.30%
4 Week Price Chg	4.47%	-2.41%	0.39%	-4.48%	-5.25%	20.71%
12 Week Price Chg	2.01%	3.00%	4.84%	68.60%	-15.32%	28.97%
52 Week Price Chg	0.78%	-14.62%	14.99%	-52.98%	-7.10%	8.48%
20 Day Average Volume	1,698,339	458,598	1,996,897	108,381	143,781	337,674
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-3.85%	0.00%	-0.01%	0.00%	-4.67%	15.91%
(F1) EPS Est 12 week change	-4.11%	-2.53%	-0.21%	-17.48%	6.12%	15.91%
(Q1) EPS Est Mthly Chg	-10.99%	0.00%	-0.26%	0.00%	NA	-10.00%

Zacks Style Scores

The Zacks Style Score is a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	A
Momentum Score	C
VGM Score	A

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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