

Tyson Foods Inc. (TSN)

\$93.46 (As of 01/13/20)

Price Target (6-12 Months): **\$98.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/12/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: C

Momentum: A

Summary

Tyson Foods' shares have outperformed the industry in the past six months. The company is steadily gaining from rising demand for protein-packed offerings. In fact, during the fourth quarter of fiscal 2019, the chicken, pork and prepared foods units performed well and boosted the top line. Additionally, the company focuses on bolstering presence in the fresh meat products space. Also, it is on track with its financial fitness program. Coming back to the fourth quarter, lower margins exerted pressure on the bottom line that declined year on year and missed estimates. Further, the company's operating profits in most segments have been under pressure, thanks to high input costs. During the fourth quarter, performance in the beef unit was affected by closure of a production facility due to fire.

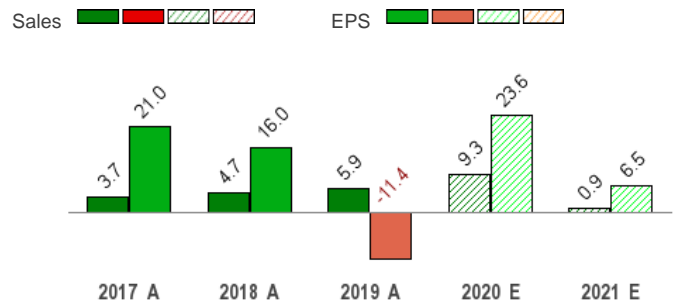
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$94.24 - \$57.67
20 Day Average Volume (sh)	2,265,431
Market Cap	\$34.1 B
YTD Price Change	2.7%
Beta	0.43
Dividend / Div Yld	\$1.68 / 1.8%
Industry	Food - Meat Products
Zacks Industry Rank	Top 10% (25 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.6%
Last Sales Surprise	-2.0%
EPS F1 Est- 4 week change	1.1%
Expected Report Date	02/06/2020
Earnings ESP	1.8%
P/E TTM	17.1
P/E F1	13.9
PEG F1	3.5
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	11,266 E	11,425 E	11,557 E	11,668 E	46,768 E
2020	11,115 E	11,328 E	11,452 E	12,472 E	46,367 E
2019	10,193 A	10,443 A	10,885 A	10,884 A	42,405 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.87 E	\$1.65 E	\$1.86 E	\$1.97 E	\$7.19 E
2020	\$1.70 E	\$1.66 E	\$1.72 E	\$1.84 E	\$6.75 E
2019	\$1.58 A	\$1.20 A	\$1.47 A	\$1.21 A	\$5.46 A

*Quarterly figures may not add up to annual.

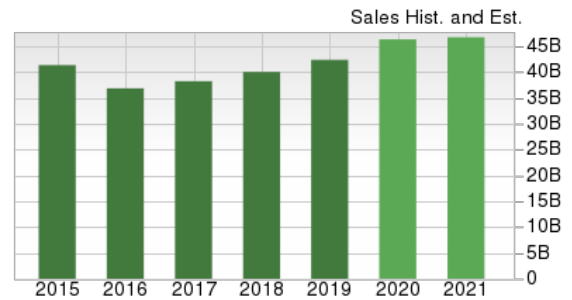
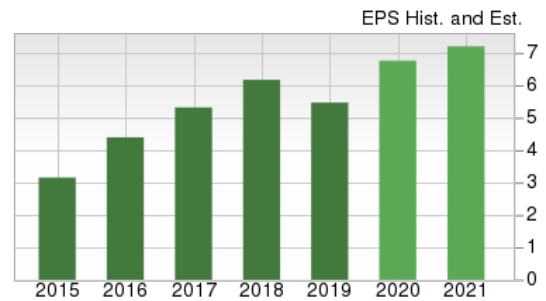
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/13/2020. The reports text is as of 01/14/2020.

Overview

Headquartered in Arkansas, Tyson Foods Inc. was founded in 1935. It is the biggest U.S. chicken company and produces, distributes and markets chicken, beef, pork as well as prepared foods. Its products are marketed and sold primarily by sales staff to grocery retailers, grocery wholesalers, meat distributors, military commissaries, industrial food processing companies, chain restaurants, international export companies and domestic distributors.

- **Chicken** (31.3% of FY19 Sales): The operations of this segment comprise raising and processing live chickens into fresh, frozen and value-added chicken products, as well as sales from allied products.
- **Beef** (37.2% of FY19 Sales): This segment's operations include processing cattle and preparing dressed beef carcasses into meat cuts and case-ready products. The revenues from this segment also come from sales of allied products such as hides and variety meats. Allied products are marketed to manufacturers of pharmaceuticals and technical products.
- **Pork** (8.8% of FY19 Sales): This segment's operations comprise processing market hogs and preparing pork carcasses into meat products.
- **Prepared Foods** (19.8% of FY19 Sales): This segment's operations include manufacturing frozen and refrigerated food products, like pepperoni, bacon, pizza toppings, pizza crusts, tortilla products, appetizers, prepared meals, ethnic foods, soups, sauces, side dishes, meat dishes and processed meats.
- **International/Other** (3% of FY19 Sales): The segment includes foreign operations in Australia, China, South Korea, Malaysia, Mexico, the Netherlands, Thailand and the United Kingdom. Also, it includes third-party merger, integration costs and corporate overhead related to Tyson New Ventures, LLC.

During fiscal 2018, the company's intersegment sales came in at \$1,317 million.



Reasons To Buy:

- ▲ **Focus on Protein-Packed Brands and Organic Products:** Tyson Foods expects demand for protein to rise consistently and is well positioned to exploit all opportunities in the space. For fiscal 2020, USDA expects overall domestic protein production (chicken, beef, pork and turkey) to rise roughly 2-3% year over year. A greater portion of the upside is likely to be absorbed by export markets. The rising demand for protein-packed food products is a fueling factor for higher protein production. In fact, Tyson Foods boasts a rich portfolio of protein packed brands that are growing rapidly across the globe. During the fiscal fourth quarter, sales in the pork, chicken and prepared foods segments reflected growth. Markedly, sales volumes in the pork unit has been gaining from improved demand, while volumes in the chicken unit has been rising on the back of acquisitions. Solid performances across these categories boosted the top line in the said quarter. Such upsides along with other prudent growth strategies are boosting investors' optimism. Shares of the company increased 15.3% in the past six months, while the industry rose 11%.

Tyson Foods gains from rising demand for protein-packed food. Further, the company undertakes strategic buyouts, which is boosting sales volumes in the Chicken segment.

Additionally, the company has undertaken divestiture of non-protein businesses (such as Sara Lee Frozen Bakery, Kettle and Van's) so as to focus more on the growing protein-packed food arena. Apart from this, the company has been steadily expanding fresh prepared foods offering, owing to consumers rising demand for natural fresh meat offerings without any added hormones or antibiotics. In this respect, Tyson Foods buyout of Tecumseh is quite noteworthy. The deal has added the popular air-chilled Smart Chicken brand along with a variety of chicken sausages, fresh and deli-style chicken to Tyson Foods' portfolio. The company is also on track with developing a facility in Utah, which will be engaged in the conversion of fresh beef and pork into steaks, chops, roasts, and ground beef. Additionally, Tyson Foods has been venturing into alternative sources for meat and protein products, evident from the investment in Memphis Meats. Further, the company is on track with new plant-based protein and blended products launches under the Raised & Rooted brand. The company has also begun shipping new Raised & Rooted blended burger made with Angus beef and plant protein.

- ▲ **Strategic Acquisitions:** Tyson Foods has been focusing on acquisitions to expand portfolio and boost sales volumes. In particular, acquisitions are aiding growth in the Chicken segment. Incidentally sales volume in this unit advanced 13.1% year on year during the fourth quarter of fiscal 2019.

We note that the company completed the acquisition of the European and Thai operations of BRF S.A. in June 2019. The buyout has aided strengthening Tyson Foods' footing in the Thai poultry space as well as expand presence in the United Kingdom and Netherlands. Prior to this, on Nov 30, 2018, the company completed acquiring Keystone Foods business, which supplies a broad array of meat and chicken products internationally. This buyout has particularly been bolstering the company's Chicken as well as the International and Other segments' performances. Recently, the company entered into an agreement to invest in the foods segment of Brazil's Grupo Vibra (Vibra Foods). The move is likely to bolster Tyson Foods' access to Brazilian poultry supplies.

Other notable acquisitions of Tyson Foods in the past include; AdvancePierre, Original Philly Holdings, Hillshire as well as Mexican food restaurant chain, Don Julio Foods. Moreover, the company has acquired poultry rendering and blending assets of AMPRO Products, Inc. and American Proteins, Inc. The deal has enabled Tyson Foods to bolster animal products recycling capabilities, which will aid in expanding animal feed business.

- ▲ **Financial Fitness Program to Boost Efficiency:** Toward the latter half of 2017, Tyson Foods announced a Financial Fitness Program, with the motive to enhance operating and supply-chain efficiencies, reduce overheads and fuel bottom line in the forthcoming periods. The company aims to generate savings from this program, through synergies from acquisition integration, along with incremental cost optimization which involves removal of non-value added costs. Earlier management had stated that it expects the program to generate savings worth \$600 million by 2020. Majority of these savings are expected to benefit the Prepared Foods and Chicken segments.
- ▲ **Geographic and Product Diversity:** Tyson Foods has significant presence in markets outside the U.S. During fiscal 2019 the company sold its products in approximately 145 countries, with major sales from markets of Australia, Canada, Central America, Chile, China, the European Union, Japan, Mexico, Malaysia, the Middle East, South Korea, Taiwan and Thailand. Moving to its product portfolio, Tyson Foods offers a wide array of meat products and commands a strong presence in all beef, pork, chicken as well as processed and fresh meat food products categories. This acts as a buffer to the company's sales and margins — if one category fails, the others can aid recovery. Also, Tyson Foods continuously innovates and adds products to an already rich food line up.
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Reasons To Sell:

▼ **Weaknesses in the Beef Unit:** During the fourth quarter of fiscal 2019, sales in the beef segment dipped 1.3% year on year. Further, sales volume contracted 4.2% owing to lower live cattle processing capacity stemming from closure of a production facility due to fire. In fact, the company recorded fire-related expenses worth nearly \$31 million, net of insurance recoveries.

▼ **Dismal Earnings Picture:** Tyson Foods' bottom line declined year on year in all the four quarters of fiscal 2019. During the third quarter, the bottom line declined nearly 23% and also missed the Zacks Consensus Estimate. The downside was caused by lower margins.

▼ **High Input Costs:** Tyson Foods is experiencing high input costs across some of its categories. This is weighing upon the respective segment's operating profits. During the third quarter, higher livestock costs in the pork unit, feed-ingredients costs in the chicken unit and raw material costs in the prepared foods unit were headwinds. Consistent rise in such input metrics might deter the company's operating profits.

▼ **Food Industry Headwinds:** The food industry is grappling with stiff competition and aggressive promotional environment. The company faces intense competition from other food companies on the grounds of quality, prices and availability. To meet such competitive pressure effectively, Tyson Foods may have to lower prices for its products or indulge in marketing activities to maintain market share.

Lower sales in beef segment weighs on Tyson Foods performance in Q4. Further, the company's bottom line has been unimpressive for a while.

Last Earnings Report

Tyson Foods Q4 Earnings Miss Estimates, Sales up Y/Y

Tyson Foods posted fourth-quarter fiscal 2019 results, wherein adjusted earnings were \$1.21 per share, missing the Zacks Consensus Estimate of \$1.23. Moreover, the bottom line declined nearly 23% year over year.

Net sales increased 8.8% to \$10,884 million. However, the top line missed the Zacks Consensus Estimate of \$11,104 million.

Gross profit for the fiscal fourth quarter came in at \$1,139 million, down 14.9% from the prior-year quarter's figure. Gross margin contracted 290 basis points (bps) to 10.5%.

Tyson Foods' adjusted operating income dipped nearly 16.5% to \$686 million. Also, adjusted operating margin for the period was 6.3%, down 190 bps year over year.

Quarter Ending **09/2019**

Report Date	Nov 12, 2019
Sales Surprise	-1.98%
EPS Surprise	-1.63%
Quarterly EPS	1.21
Annual EPS (TTM)	5.46

Segment Details

Beef: Sales in the segment dipped 1.3% to \$3,861 million. Sales volume contracted 4.2% year over year due to lower live cattle processing capacity stemming from the closure of a production facility due to fire. Average sales price rose 2.8% on robust demand for beef products. Adjusted operating income improved almost 17% to \$407 million and adjusted operating margin expanded 160 bps to 10.5% during the quarter.

Pork: Sales in the segment increased 10.9% year over year to \$1,258 million. Sales volume increased 2.9% year over year, owing to higher domestic availability of hogs and improved demand. Average sales price improved 8.1% year over year on higher livestock costs. Adjusted operating income in the segment amounted to \$27 million, down 64.5% from the prior-year quarter's figure. Adjusted operating margin fell 460 bps to 2.1%.

Chicken: Sales in the segment rose 10.6% to \$3,447 million. Sales volume increased 13.1% year over year owing to incremental volume stemming from acquisitions. Average sales price in the quarter declined 2.4% owing to unfavorable sales mix and market conditions. Adjusted operating income declined 47.8% to \$95 million while adjusted operating margin contracted 300 bps to 2.8% during the quarter.

Prepared Foods: Sales in the segment improved 2.7% to \$2,153 million. Prepared Foods' sales volume contracted 2.6% thanks to business divestitures. Average sales price increased 5.2% owing to favorable product mix and pricing increases. Adjusted operating income declined nearly 34% to \$149 million in the quarter. Adjusted operating margin contracted 390 bps to 6.9%.

International/Other: Sales in the segment were \$513 million, up from \$60 million reported in the prior-year quarter. Sales volume and average selling price improved remarkably.

Other Financial Updates

Tyson Foods exited the quarter with cash and cash equivalents of \$484 million, long-term debt of \$9,830 million and shareholders' equity of \$14,226 million.

In fiscal 2019, the company generated cash from operating activities of \$2,513 million. Further, management projects capital expenditure to be approximately \$1.3 billion for fiscal 2020.

Growth Efforts on Track

Tyson Foods is on track with efforts to boost business through innovations as well as investments in technology and infrastructure. Moreover, it expects demand for protein to rise consistently and is well positioned to exploit all opportunities in the space. For fiscal 2020, USDA expects overall domestic protein production (chicken, beef, pork and turkey) to rise 2-3% year over year. A greater portion of the upside is likely to be absorbed by export markets.

Additionally, the company expects to either meet or exceed high single-digit adjusted earnings growth in the long run.

Recent News

Tyson Foods' Subsidiary Inks Deal to Expand in Kazakhstan – Dec 9, 2019

Tyson Foods is committed toward expanding its presence in the global markets. The company's beef and pork subsidiary — Tyson Fresh Meats, Inc — has reached an agreement with the Republic of Kazakhstan and a major beef producer Kusto Group for a project for development of a modern beef processing plant.

The proposed plant, with an expected harvest capacity of 2,000 head-per-day, will add an overseas beef plant for Tyson Foods. Further, industry experts believe that this development in Kazakhstan will open up ample export opportunities for Tyson Foods in China, Russia and the Middle East. Also, the company can leverage its well-established distribution networks in Central Europe.

Notably, Tyson Foods expects nearly 98% of total protein consumption in regions outside the United States, primarily in Asia. That said, this expansion is likely to enable the company to benefit from global opportunities related to rising protein demand.

Kazakhstan is resourcefully rich in water and land, which has been beneficial for its booming livestock and multi-protein export industry. To top it, the envisaged plant is expected to stimulate the country's agricultural economy, providing a benefit of more than \$1 billion to the country annually. This said, the investment is appropriate for Tyson Foods and Kazakhstan's economy.

Tyson Foods' Deal With Grupo Vibra Likely to Fuel Expansion – Aug 30, 2019

Tyson Foods enters into an agreement to invest in the foods segment of Brazil's Grupo Vibra ("Vibra Foods"). Investment in this provider and exporter of poultry products will give Tyson Foods access to Brazilian poultry supplies and help it expand global reach. Presently, the company is focusing on expanding operations outside the United States, where it expects about 98% rise in protein consumption over the next five years. In fact, it is currently delivering international sales of about \$7 billion annually, including U.S. export sales of roughly \$5 billion and in-country revenues worth approximately \$2 billion.

Tyson Foods Launches New Plant-Based Protein Products – Jun 13, 2019

Tyson Foods announced a range of new products under the Raised & Rooted brand. These launches will mainly cater to the plant-based protein and blended products arena. The company plans to launch plant-based nuggets and blended burgers that include beef and plants as ingredients. This move provides the company an opportunity to introduce exciting products in the meat space and cater to consumers who demand healthy and flexible protein options.

Valuation

Tyson Foods shares are up 62.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Staples sector are up 33.2% and 19.6% over the past year, respectively.

The S&P 500 index is up 26.9% in the past year.

The stock is currently trading at 13.59X forward 12-month earnings, which compares to 15.5X for the Zacks sub-industry, 19.69X for the Zacks sector and 18.88X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.69X and as low as 8.38X, with a 5-year median of 12.38X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$98 price target reflects 14.25X forward 12-month earnings.

The table below shows summary valuation data for TSN

Valuation Multiples - TSN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	13.59	15.5	19.69	18.88
	5-Year High	16.69	18.55	22.38	19.34
	5-Year Low	8.38	11.48	16.66	15.17
	5-Year Median	12.38	14.61	19.71	17.44
P/S F12M	Current	0.73	0.98	9.88	3.5
	5-Year High	0.76	1.11	11.13	3.5
	5-Year Low	0.33	0.63	8.09	2.54
	5-Year Median	0.61	0.94	9.87	3
EV/EBITDA F12M	Current	8.95	9.82	34.37	12.66
	5-Year High	9.61	18.63	37.22	12.66
	5-Year Low	6.56	7.49	29.37	9.08
	5-Year Median	8.08	9.67	33.52	10.78

As of 01/13/2020

Industry Analysis Zacks Industry Rank: Top 10% (25 out of 254)



Top Peers

Pilgrims Pride Corporation (PPC)	Outperform
Sanderson Farms, Inc. (SAFM)	Outperform
Conagra Brands Inc. (CAG)	Neutral
Campbell Soup Company (CPB)	Neutral
General Mills, Inc. (GIS)	Neutral
Hormel Foods Corporation (HRL)	Neutral
Industrias Bachoco, S.A. de C.V. (IBA)	Neutral
The J. M. Smucker Company (SJM)	Neutral

Industry Comparison Industry: Food - Meat Products				Industry Peers		
	TSN Neutral	X Industry	S&P 500	HRL Neutral	PPC Outperform	SAFM Outperform
VGM Score	A	-	-	C	A	B
Market Cap	34.13 B	5.92 B	24.31 B	24.54 B	7.97 B	3.87 B
# of Analysts	5	1	13	6	2	4
Dividend Yield	1.80%	0.00%	1.76%	2.03%	0.00%	0.74%
Value Score	A	-	-	C	B	C
Cash/Price	0.01	0.08	0.04	0.03	0.08	0.03
EV/EBITDA	10.89	15.02	14.12	17.31	12.73	17.73
PEG Ratio	3.44	1.21	2.05	4.31	0.58	NA
Price/Book (P/B)	2.40	2.40	3.34	4.14	3.42	2.72
Price/Cash Flow (P/CF)	11.04	12.18	13.66	22.10	13.32	18.95
P/E (F1)	13.70	14.79	18.82	26.10	13.11	15.72
Price/Sales (P/S)	0.80	0.81	2.64	2.58	0.72	1.12
Earnings Yield	7.22%	6.79%	5.29%	3.83%	7.61%	6.36%
Debt/Equity	0.69	0.04	0.72	0.04	1.08	0.04
Cash Flow (\$/share)	8.46	2.40	6.94	2.08	2.40	9.19
Growth Score	C	-	-	C	B	C
Hist. EPS Growth (3-5 yrs)	17.30%	-12.67%	10.56%	8.16%	-13.27%	-27.22%
Proj. EPS Growth (F1/F0)	23.63%	16.04%	7.49%	1.05%	39.94%	341.04%
Curr. Cash Flow Growth	-3.73%	-11.27%	14.83%	-8.04%	-40.11%	3.93%
Hist. Cash Flow Growth (3-5 yrs)	13.92%	6.68%	9.00%	8.67%	-3.14%	-8.98%
Current Ratio	1.30	1.82	1.23	2.14	1.82	2.69
Debt/Capital	40.86%	4.05%	42.99%	4.05%	51.87%	3.73%
Net Margin	4.77%	4.01%	11.08%	10.31%	3.24%	1.55%
Return on Equity	14.53%	14.01%	17.16%	16.14%	17.87%	3.94%
Sales/Assets	1.29	1.46	0.55	1.18	1.73	1.97
Proj. Sales Growth (F1/F0)	9.34%	5.15%	4.23%	1.52%	NA	10.91%
Momentum Score	A	-	-	D	B	B
Daily Price Chg	1.68%	0.11%	0.73%	2.23%	1.43%	1.46%
1 Week Price Chg	1.48%	0.15%	0.39%	1.47%	-2.54%	-2.07%
4 Week Price Chg	3.90%	2.56%	1.84%	2.30%	-0.93%	4.20%
12 Week Price Chg	15.43%	12.39%	6.48%	12.94%	12.39%	29.37%
52 Week Price Chg	61.78%	54.96%	23.15%	7.47%	80.85%	54.96%
20 Day Average Volume	2,265,431	75,767	1,578,594	1,919,641	608,018	336,184
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	1.14%	0.57%	0.00%	0.00%	6.10%	35.62%
(F1) EPS Est 12 week change	0.82%	0.17%	-0.48%	-0.99%	11.19%	14.08%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	NA	NA

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	A
Growth Score	C
Momentum Score	A
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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