

## Verizon Communications (VZ)

**\$58.85** (As of 01/09/20)

Price Target (6-12 Months): **\$62.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 01/29/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

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

**3-Hold**

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: A

### Summary

With industry-leading wireless products and services, Verizon remains well poised to benefit from increased 5G deployment across the country. The company has embarked on a new operating structure with the operating model closely aligned with the evolving customer needs. Focus on online content delivery, mobile video and online advertising will likely drive future growth. The company has also upped the ante against rivals by launching 5G Ultra Wideband network in select locations of the country and reiterated its guidance. However, it continues to struggle in a competitive U.S. wireless market. The company's wireline division is struggling with losses in access lines due to competitive pressure from VoIP service providers. In addition, Verizon is spending heavily on promotion and lucrative discounts to woo customers, which contracts margins.

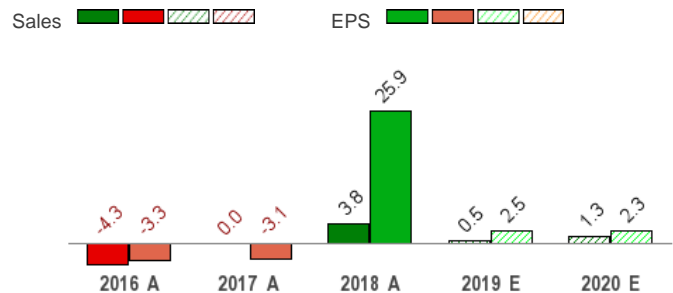
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$62.22 - \$52.28</b>
20 Day Average Volume (sh)	<b>12,372,415</b>
Market Cap	<b>\$243.4 B</b>
YTD Price Change	<b>-4.2%</b>
Beta	<b>0.51</b>
Dividend / Div Yld	<b>\$2.46 / 4.2%</b>
Industry	<b><a href="#">Wireless National</a></b>
Zacks Industry Rank	<b>Bottom 22% (199 out of 254)</b>

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



Last EPS Surprise	<b>0.8%</b>
Last Sales Surprise	<b>0.6%</b>
EPS F1 Est- 4 week change	<b>-0.3%</b>
Expected Report Date	<b>01/30/2020</b>
Earnings ESP	<b>-0.3%</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	32,577 E	32,610 E	33,345 E	34,767 E	133,238 E
2019	32,128 A	32,071 A	32,894 A	34,430 E	131,550 E
2018	31,772 A	32,203 A	32,607 A	34,281 A	130,863 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.23 E	\$1.26 E	\$1.30 E	\$1.15 E	\$4.94 E
2019	\$1.20 A	\$1.23 A	\$1.25 A	\$1.15 E	\$4.83 E
2018	\$1.17 A	\$1.20 A	\$1.22 A	\$1.12 A	\$4.71 A

\*Quarterly figures may not add up to annual.

P/E TTM	<b>12.3</b>
P/E F1	<b>11.9</b>
PEG F1	<b>2.8</b>
P/S TTM	<b>1.9</b>

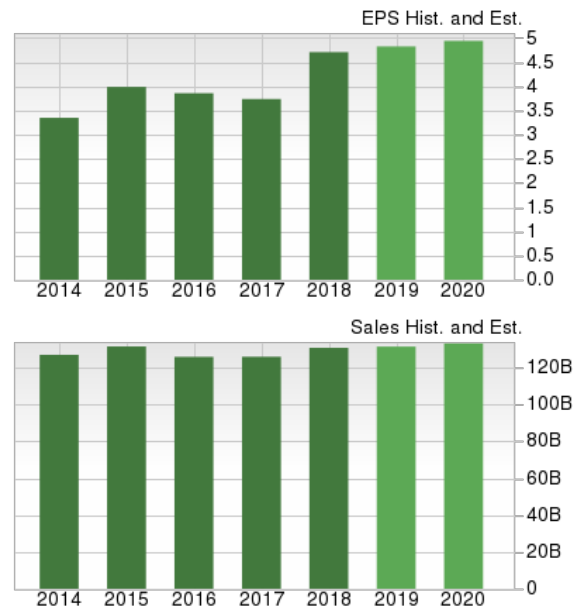
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/09/2020. The reports text is as of 01/10/2020.

## Overview

Based in New York, Verizon Communications Inc. was formed through the merger of Bell Atlantic and GTE Corp. The company offers communication services in the form of local phone service, long distance, wireless and data services. In Jan 2006, Verizon completed its merger with MCI Corporation, a leader in long distance and data networking. With the acquisition of Alltel Wireless Corp. in early 2009, Verizon has surpassed AT&T Inc. as the largest wireless carrier in the North America, serving millions of customers nationwide.

Effective second-quarter 2019, the company has reorganized its operating segments under its new operating structure dubbed Verizon 2.0. Under this operating structure, the new segments of the company are Consumer, Business and Media Group.

- **Consumer** (69% of total revenues in third-quarter 2019): This segment includes the retail wireline and wireless businesses.
- **Business** (24%): This segment includes the wireless and wireline operations of Wholesale, Public Sector and Other, Small and Medium Business, and Global Enterprise.
- **Media Group** (7%): This segment includes assets gained through the Yahoo acquisition, media verticals and the ad platform.



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## Reasons To Buy:

- ▲ Verizon expects considerable business growth in both its Wireless and Wireline businesses in 2020. The company expects healthy improvement in margins on the back of continued strong FiOS network and strategic services in the Wireline business. The company's efforts to improve profitable growth include improving operating and capital efficiency. In the enterprise and the wholesale business, Verizon is changing its revenue mix toward newer growth services like cloud, security and professional services. Also, Verizon is looking forward to capitalize on the countless innovative technology solutions being developed in the Internet of Things and telematics ecosystem across multiple industries. Further, the company's focus on online content delivery, mobile video and online advertising should drive growth.
- ▲ Verizon has upped the ante against its rivals by launching the 5G Ultra Wideband network in Chicago, Minneapolis, and in select locations of Denver and Providence. The company has increased the tally of 5G Ultra Wideband mobility cities to 31 in 2019, while offering an exclusive 5G moto mod by Motorola Solutions to power moto z3 – the world's first 5G-enabled smartphone – to enable users to fully utilize the network features. The 5G Ultra Wideband network hinges on three fundamental drivers to deliver the full potential of 5G technology. These include massive spectrum holdings, particularly in the millimeter wave bands for faster data transfer, end-to-end deep fiber resources and the ability to deploy large numbers of small cells. Verizon has systematically invested in 5G technology to gain a foothold in the industry. The company expects to capitalize on the impending 5G boom and outsmart competitive pressure.
- ▲ Verizon has been looking to slash costs through employee reduction as it ramps up investment in its next-generation 5G network, which is expected to better position itself for future growth. Verizon is systematically diversifying itself as a major player in the digital content and online advertising space. The company wrote off a majority of its media business — Oath — which includes Yahoo and AOL, due to lower-than-expected performance. Verizon Media replaced the Oath brand. Over the years, the largest U.S. wireless carrier (by subscribers), has spurred technological innovation and economic development, including introduction of mobile data and making the ecosystem more pervasive with 4G LTE. The company has now embarked on a new operating structure under Verizon 2.0, with the operating model closely aligned with the evolving customer needs. The business transformation is likely to propel the growth engine of the company as the industry witnesses a major upheaval.
- ▲ With one of the most efficient wireless networks in the United States, Verizon continues to deploy the latest 4G LTE Advanced technologies to deliver faster peak data speeds and capacity for customers, driven by customer-focused planning, disciplined engineering and constant strategic investment. Verizon has been aggressively forging ahead to expand its fiber optics networks to support 4G LTE and upcoming 5G wireless standards as well as wireline connections. For full-year 2019, Verizon has reiterated its earnings guidance on underlying strength of its business model and healthy momentum in its wireless business. Adjusted earnings per share are likely to increase by low single digits. GAAP revenues are likely to increase by low single-digit percentage rates driven by expected savings from tax reform and higher cash flow from operations.

Verizon plans to launch next-generation 5G wireless residential broadband services in multiple U.S. markets in 2019, while diversifying itself firmly in digital content and online advertising market.

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## Reasons To Sell:

- ▼ Verizon continues to struggle in a competitive and saturated U.S. wireless market with incumbents like AT&T, T-Mobile and Sprint. The industry is likely to witness stiff competition in 2020 and beyond with the entry of cable MSOs (multi service operators). Comcast has already entered this space with Xfinity Mobile offering. Charter Communications also reiterated its plans of launching wireless service. Adoption of several unlimited data plans has resulted in reduction of wireless service revenues and lower average revenue per user.
- ▼ Spectrum crunch has become a major issue in the U.S. telecom industry. Most of the carriers are finding it increasingly difficult to manage mobile data traffic, which is growing by leaps and bounds. The situation has become even more acute with the growing popularity of iPhone and Android smartphones as well as rising online mobile video streaming, cloud computing and video conferencing services.
- ▼ During third-quarter 2019, the company has lost 67,000 Fios video connections amid pressures from cord-cutting of video bundles. In an effort to expand its customer base, Verizon is spending heavily on promotion and is also offering lucrative discounts, which is weighing on margins. The company's wireline division is struggling with persistent losses in access lines owing to competitive pressure from voice-over-Internet protocol (VoIP) service providers and aggressive triple-play (voice, data, video) offerings by cable companies. These are likely to weigh on the company's revenues in the future. In order to make wireline profitable, Verizon is making significant investments and is streamlining its cost structure. It remains unclear if and when a reasonable return can be achieved from such investments.

Verizon continues to struggle in a competitive and saturated U.S. wireless market, while wireline woes and depleting margins due to promotions and heavy discounts remain nagging concerns.

## Last Earnings Report

### Verizon Q3 Earnings Trump Estimates on Wireless Strength

Verizon reported solid third-quarter 2019 results, primarily led by the wireless business. With industry-leading wireless products and services, the company remains well poised to benefit from increased 5G deployment across the country under the new operational framework.

#### Quarter Details

GAAP earnings for the reported quarter were \$5,337 million or \$1.25 per share compared with \$5,062 million or \$1.19 per share in the year-ago quarter. The year-over-year increase in GAAP earnings was largely driven by top-line growth and lower operating expenses. Excluding non-recurring items, adjusted earnings were \$1.25 per share compared with \$1.22 in the year-earlier quarter and beat the Zacks Consensus Estimate by a penny.

Consolidated GAAP operating revenues improved 0.9% year over year to \$32,894 million as wireless service revenue growth was partially offset by lower wireless equipment and decline in legacy wireline revenues. The top line beat the Zacks Consensus Estimate of \$32,715 million. Operating income improved 6.6% year over year to \$8,180 million as diligent execution of operational plans led to lower operating costs.

#### Segment Performance

**Consumer:** Total revenues from this segment were up 1.4% year over year to \$22,706 million. Service revenues improved 1.5% to \$16,433 million due to shift to higher-priced plans, incremental contributions from retail postpaid net additions and an increase in connections per account. Equipment revenues decreased 5.6% to \$4,257 million as focus on high-end devices and technology upgrades led to soft sales, while Other revenues totaled \$2,016 million, up 18.7% year over year.

Operating income improved 3.8% to \$7,489 million due to higher retail postpaid connections. Quarterly operating income margin was 33% compared with 32.2% in the year-ago quarter. Segment EBITDA was \$10,295 million, resulting in EBITDA margin of 45.3% compared with respective tallies of \$10,223 million and 45.6% in the prior-year quarter.

Verizon reported 193,000 retail postpaid net additions in third-quarter 2019. Quarterly retail postpaid churn rate increased to 1.05% from 1.01% in the year-ago quarter. Wireless retail postpaid ARPA (average revenue per account) was \$118.89 compared with \$117.06 in the year-ago quarter.

**Business:** Total revenues in the segment were \$7,885 million, almost flat year over year as lower Wholesale revenues (down 13.7% to \$800 million) and Global Enterprise (down 2.4% to \$2,714 million) were offset by higher Small and Medium revenues (up 6.2% to \$2,899 million) and Public Sector and Other revenues (up 1.2% to \$1,472 million). Despite growth in high-quality fiber products, Verizon continued to face pricing pressures on legacy products and technology shifts.

Although Verizon added a net of 30,000 Fios Internet connections due to strong demand for value broadband connections, it lost 67,000 Fios Video connections amid pressures from cord-cutting of video bundles, reflecting a strategic shift from traditional linear video to over-the-top offerings.

Operating income from the segment was \$977 million compared with \$1,154 million in the year-ago quarter. Segment EBITDA fell 10.7% to \$1,987 million for EBITDA margin of 25.2% compared with 28.2% in the year-ago quarter.

#### Cash Flow and Liquidity

Verizon generated \$26,748 million of cash from operating activities in the first nine months of 2019 compared with \$26,244 million in the year-ago period. The year-over-year increase was driven by operational improvements and lower discretionary employee benefit contributions, partially offset by higher cash payments related to the Voluntary Separation Program. At quarter end, Verizon had \$3,020 million of cash and cash equivalents and \$101,769 million in long-term debts.

The company recorded high capital expenditures of \$12,332 million during the quarter in order to support the transition for the launch and continued build-out of its 5G Ultra Wideband network, deployment of significant fiber assets across the country and upgrade to Intelligent Edge Network.

Till date, Verizon has achieved \$4.6 billion of cumulative cash savings and remains on track to achieve cumulative cost savings of \$10 billion by 2021. The company realized approximately \$400 million of expense savings from its Voluntary Separation Program during the quarter.

#### Guidance Reiterated

For full-year 2019, Verizon reiterated its earlier guidance on underlying strength of its business model and healthy momentum in its wireless business. Adjusted earnings per share are likely to increase by low single digits, while GAAP revenues are likely to increase by low single-digit percentage rates driven by expected savings from tax reform and higher cash flow from operations. Capital expenditures for 2019 are likely to be in the range of \$17 billion to \$18 billion.

Quarter Ending **09/2019**

Report Date	Oct 25, 2019
Sales Surprise	0.55%
EPS Surprise	0.81%
Quarterly EPS	1.25
Annual EPS (TTM)	4.80

## Recent News

On Dec 26, 2019, Verizon announced that its 5G Ultra Wideband mobility service is available in select locations in Cleveland and Columbus, OH, and Hampton Roads, VA. Increasing the tally, the telecom bellwether has turned on its much-acclaimed service in 31 cities, 15 NFL stadiums and four indoor arenas.

On Dec 5, 2019, Verizon announced that it has teamed up with the subsidiaries of Sony Corporation — Sony Imaging Products & Solutions Inc. and Sony Mobile Communications Inc. — to offer excellent live sports broadcast to NBC Sports. The collaboration is likely to reduce configuration time and costs, which are core to camera system integration.

On Dec 3, 2019, Verizon announced that it has collaborated with Amazon.com, Inc.'s cloud computing arm, Amazon Web Services, to create and deploy low latency applications to mobile devices using 5G and became the first telecom carrier in the world to offer such service. Per the deal, business enterprises will be able to download latency-sensitive data from the cloud at a much faster speed than a typical 4G network.

On Nov 25, 2019, Verizon announced that it has partnered with leading tech behemoths — Qualcomm Incorporated and Ericsson — to demonstrate the feasibility of next-gen networking technology Dynamic Spectrum Sharing. The networking solution is based on an innovative cost-effective technology that enables optimal performance with seamless interchange of networking infrastructure between 4G and 5G devices based on traffic demand, thereby minimizing spectrum waste. The combination of faster commercialization and low investment requirement has made spectrum sharing an essential part of the operator's 5G strategies.

On Oct 23, 2019, Verizon announced that it has collaborated with SAP SE to facilitate applications to process data where it is generated in order to save time and increase productivity. The collaboration aims to create enterprise solutions that use Verizon's network and platform capabilities integrated with SAP's software and service to accelerate digital transformation and unlock the power of the Intelligent Enterprise.

On Oct 18, 2019, Verizon announced that its 5G Lab has augmented the GPU-based cloud services capabilities by developing a set of revolutionary mobility solutions, namely virtual reality, mixed reality, augmented reality, and cinematic reality. This is likely to provide a platform for developing ultra-low-latency cloud gaming, thereby enabling the development of scalable, low cost and highly powerful mobile devices.

## Valuation

Verizon shares are up 1.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer and Technology sector are up 10.4% and 33% over the past year, respectively.

The S&P 500 index is up 25.2% in the past year.

The stock is currently trading at 8.48X trailing 12-month EV/EBITDA, which compares to 6.37X for the Zacks sub-industry, 12.12X for the Zacks sector and 11.99X for the S&P 500 index.

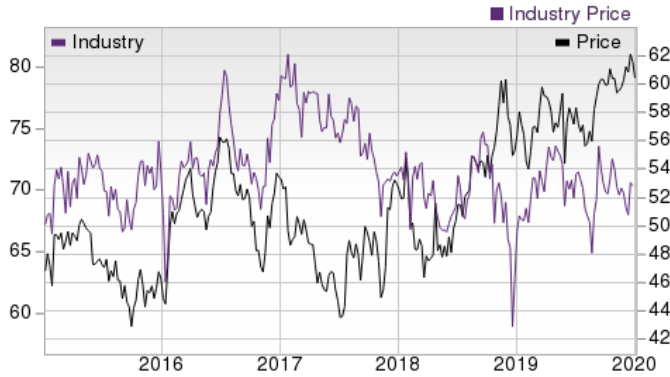
Over the past five years, the stock has traded as high as 11.9X and as low as 6.1X, with a 5-year median of 7.3X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$62.00 price target reflects 5.21X forward 12-month earnings.

The table below shows summary valuation data for VZ

Valuation Multiples - VZ					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	8.48	6.37	12.12	11.99
	5-Year High	11.91	11.62	12.6	12.86
	5-Year Low	6.08	5.99	7.67	8.48
	5-Year Median	7.3	6.67	10.52	10.67
P/E F12M	Current	11.89	12.37	22.73	18.94
	5-Year High	14.19	16.01	22.73	19.34
	5-Year Low	10.07	10.88	16.86	15.17
	5-Year Median	12.22	13.79	19.24	17.44
P/S F12M	Current	1.83	1.51	3.66	3.51
	5-Year High	1.93	1.54	3.66	3.51
	5-Year Low	1.31	1.12	2.3	2.54
	5-Year Median	1.61	1.34	3.01	3

As of 01/09/2020

## Industry Analysis Zacks Industry Rank: Bottom 22% (199 out of 254)



## Top Peers

ATN International, Inc. (ATNI)	Neutral
CenturyLink, Inc. (CTL)	Neutral
GCI Liberty, Inc. (GLIBA)	Neutral
Gogo Inc. (GOGO)	Neutral
AT&T Inc. (T)	Neutral
T-Mobile US, Inc. (TMUS)	Neutral
Sprint Corporation (S)	Underperform
United States Cellular Corporation (USM)	Underperform

Industry Comparison Industry: Wireless National				Industry Peers		
	VZ Neutral	X Industry	S&P 500	S Underperform	T Neutral	TMUS Neutral
<b>VGM Score</b>	<b>A</b>	-	-	<b>B</b>	<b>A</b>	<b>C</b>
Market Cap	243.39 B	494.57 M	23.94 B	20.53 B	283.43 B	68.28 B
# of Analysts	16	6	13	13	17	13
Dividend Yield	4.18%	0.00%	1.78%	0.00%	5.36%	0.00%
<b>Value Score</b>	<b>B</b>	-	-	<b>A</b>	<b>B</b>	<b>B</b>
Cash/Price	0.01	0.10	0.04	0.20	0.02	0.02
EV/EBITDA	8.61	5.53	13.97	4.65	6.62	9.00
PEG Ratio	2.82	3.07	2.03	NA	2.44	1.30
Price/Book (P/B)	4.04	1.41	3.33	0.79	1.46	2.46
Price/Cash Flow (P/CF)	6.59	6.59	13.73	1.80	4.24	7.22
P/E (F1)	11.99	14.72	18.79	NA	10.75	16.38
Price/Sales (P/S)	1.85	0.92	2.64	0.62	1.55	1.53
Earnings Yield	8.39%	1.36%	5.32%	-3.00%	9.30%	6.10%
Debt/Equity	1.99	0.59	0.72	1.50	0.79	1.41
Cash Flow (\$/share)	8.93	2.78	6.94	2.78	9.14	11.05
<b>Growth Score</b>	<b>B</b>	-	-	<b>D</b>	<b>B</b>	<b>C</b>
Hist. EPS Growth (3-5 yrs)	6.19%	6.19%	10.56%	NA	8.60%	71.62%
Proj. EPS Growth (F1/F0)	2.40%	24.53%	7.49%	-1,623.10%	1.22%	20.26%
Curr. Cash Flow Growth	14.35%	14.35%	14.83%	30.13%	29.91%	17.42%
Hist. Cash Flow Growth (3-5 yrs)	8.29%	7.86%	9.00%	36.43%	12.00%	20.68%
Current Ratio	0.89	0.91	1.23	0.78	0.74	0.66
Debt/Capital	66.55%	51.35%	42.99%	60.06%	44.14%	58.56%
Net Margin	12.26%	-0.32%	11.08%	-8.19%	8.97%	7.53%
Return on Equity	34.50%	0.02%	17.16%	-2.63%	13.42%	14.21%
Sales/Assets	0.47	0.50	0.55	0.38	0.34	0.55
Proj. Sales Growth (F1/F0)	1.28%	5.02%	4.20%	-4.12%	0.41%	5.02%
<b>Momentum Score</b>	<b>A</b>	-	-	<b>A</b>	<b>A</b>	<b>F</b>
Daily Price Chg	-1.44%	0.00%	0.53%	-2.91%	-1.45%	0.49%
1 Week Price Chg	-1.84%	0.00%	-0.30%	-0.38%	-0.46%	1.20%
4 Week Price Chg	-3.79%	0.59%	1.92%	-3.66%	1.17%	6.57%
12 Week Price Chg	-2.58%	-0.81%	6.54%	-22.36%	2.62%	-1.53%
52 Week Price Chg	2.17%	-17.02%	22.58%	-20.38%	27.63%	17.44%
20 Day Average Volume	12,372,415	292,435	1,580,816	10,462,728	25,149,300	2,458,790
(F1) EPS Est 1 week change	-0.08%	0.00%	0.00%	0.00%	0.85%	-0.09%
(F1) EPS Est 4 week change	-0.28%	-0.05%	0.00%	-1.02%	0.84%	-0.24%
(F1) EPS Est 12 week change	0.98%	-0.15%	-0.50%	-112.90%	-0.23%	-0.06%
(Q1) EPS Est Mthly Chg	0.61%	0.00%	0.00%	-4.35%	0.00%	-0.22%



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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>B</b>
Growth Score	<b>B</b>
Momentum Score	<b>A</b>
VGM Score	<b>A</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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