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## PRESENTATION

### Operator

Good day, ladies and gentlemen. Welcome to the TomTom first quarter 2016 earnings conference call. (Operator Instructions). Please note that this conference is being recorded.

I will now turn the call over to your hostess for today's conference, Bisera Grubestic, Head of Treasury and Investor Relations. You may begin.

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### **Bisera Grubestic** - *TomTom NV - Head of Treasury & IR*

Thank you, Alex. Good afternoon and welcome to our conference call, during which we will discuss our operational highlights and financial results for the first quarter of 2016. With me today are Harold Goddjin, our CEO, and Taco Titulaer, our CFO.

You can also listen to the call on our website, and a recording of the call will be available shortly afterwards. And as usually, I would like to point out that Safe Harbor applies.

We will start today's call with Harold, who will discuss the key operational developments, followed by a more detailed look at the financial results and the financial outlook for 2016 from Taco. We will then take your questions.

And with that, Harold, I would like to hand over to you.

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### **Harold Goddjin** - *TomTom NV - CEO*

Good afternoon and good morning. Thank you very much, Bisera. Welcome to our earnings call.

We have started the year with a solid revenue growth, driven by our sports and business-to-business activities. We generated Group revenue of EUR217 million, which is 6% higher year on year, and we delivered a strong gross margin of 57%, which is 3 percentage points above last year.

Taco will provide further information on the financial highlights and the financial outlook for 2016 later during this presentation. I will now discuss our key operational highlights for the quarter.

In consumer, we saw a strong growth in our sports activity in the quarter. The sellout amount of our sports watches nearly doubled year on year, and the new watches are winning numerous awards, which is another proof point of our success in this segment.

In the PND market, we saw a unit decline of 13% in Europe, whilst the North American markets declined by 22% year on year. Our market share in both regions improved slightly, year on year.

Our telematics business continued to perform well. The installed base reached 625,000 subscribed vehicles by the end of the quarter, and delivered a 30% growth compared with last year.

Automotive delivered a strong performance in the quarter, and we announced many customer deals. PSA Group launched its new global infotainment platform which is built on a full suite of TomTom products; maps, navigation and software, and live services.

We announced an agreement to deliver maps and navigation to the new Volkswagen Up! smartphone app, and we extended our partnership with Fiat Chrysler and Toyota this quarter.

We also extended HD map and RoadDNA coverage in California and Nevada, enabling self-driving car testing in key regions of the US. Autonomous driving continues to push boundaries. At TomTom we are excited to be playing a role in enabling the automotive industry to bring this closer to reality. And RoadDNA is attracting considerable interest from the industry and leading car makers.

Let me now briefly summarize our Group's strategic priorities on slide 3.

Our activities are organized around four customer-facing business units that leverage our brand capabilities and common technology assets, to provide our customers with industry leading, location-based products.

We've made substantial progress with our core technologies across the Group over the recent years. And this gives us confidence that we're well positioned to capture growing opportunities in the area of consumer wearables, [automated] driving, connected car, and telematics.

These areas all require the technological and product expertise that TomTom is able to provide, and prove an important part of our growth strategy, growth roadmap, and investments for the foreseeable future.

We are determined to further build on our path of growth. This can be achieved through growth from more PND product sales, while extracting value from the PND category. With the introduction of our own-branded GPS sports watches and action cam, these diversify the consumer product portfolio into the sports market. And we aim to continue to build on this with innovative new products.

Our new map-making platform is essential for creating a stronger market position, as well as for pursuing new opportunities in the automotive and location-based services market. Our strategy in automotive is working, and that is reflected in the order intake growth over the recent years. Our product portfolio delivers scalable, efficient to develop products to our customers, and is gaining significant interest in the industry.

We believe that our map-making platform, together with our traffic and navigation software and our telematics capabilities, will enable TomTom to pursue further growth with existing and new customers for the connected car, advanced driver assistance systems and autonomous driving.

We are committed to play a leading role in creating positioning technologies for HD maps for autonomous driving. And both recent product launches and contract wins are important proof points that we are delivering according to plan.

The underlying industry dynamics for our fleet management business remain favorable. A combination of short return on investment for our customers, and an underpenetrated market, allow us to plan for long-term growth of our telematics revenue. On top of this, we see new opportunities



arising in the connected car services industry. Our navigation products and connected car services are complementary and, in combination, form a strong product portfolio.

Our business will continue to require high levels of investment in the near future. This is needed to support delivery of new business and sustainable future growth of TomTom.

This concludes my part of the presentation. I'm now handing over to Taco.

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**Taco Titulaer** - *TomTom NV - CFO*

Thank you, Harold. I would like now to comment on the financial results.

Revenue in the quarter was EUR217 million, an increase of 6% compared with last year. Our sport, automotive, licensing, and telematics businesses grew strongly to offset the reduction in PND and automotive hardware revenue.

Now the four business units. Consumer, the revenue was down 4% year on year to EUR117 million. This is a result of a strong growth in our sports activities; as already mentioned, we saw the sellout amount for sports watches doubling year on year. This growth is counterbalanced by lower PND and related content and services revenue, and by lower automotive hardware revenue.

Automotive had a strong quarter with EUR30 million of revenue. This is a 26% revenue growth year on year, driven by growth in maps and traffic revenue underpinned by the order intake of the last several years.

Our licensing revenues EUR34 million in the first quarter, a 16% growth compared with the same quarter last year. I do need to point out here that this is an increase from new customer wins, but also renewing and extending of existing customer contracts which we commented on in the second quarter of 2015. Q2, 2015, involved the EUR5 million catch up which will not be there in Q2, 2016.

Telematics revenue was up by 19%, year on year, to EUR37 million. The recurring subscription revenue for the quarter increased by 28%, year on year, to EUR29 million. Our monthly subscription ARPU decreased slightly, year on year, owing to the impact of the acquisitions.

We delivered a strong gross margin in the quarter of 57%, which is 3 percentage points higher compared with 54% in Q1, 2015. This year-on-year increase was mainly driven by a higher proportion of content and services revenue in the quarter.

OpEx for the quarter was EUR128 million, compared with EUR115 million in the same quarter last year. This increase is driven by increased SG&A expenses, reflecting growth of our workforce and higher marketing to support our new and broader product range. We expect the run rate for OpEx in 2016 overall to be up with approximately 10% versus 2015.

We delivered a net result of EUR5 million this year, which translates in an adjusted earnings per share of EUR0.03 on a fully diluted basis.

At the end of the quarter, we reported a net cash position of EUR50 million. Our cash flow used in operating activities for the quarter was EUR18 million, EUR5 million higher compared with last year. The cash flow used in investing activities during the quarter increased by EUR7 million to EUR31 million, mainly reflecting increased investments in map content, our map-making platform, and customer-specific investments.

Let's now move on to our outlook for 2016, slide 5. We are reiterating our guidance for the year. We expect revenue of around EUR1,050 million. The adjusted earnings per share is expected to grow by around 10% to EUR0.23. And we expect the level of investments, both CapEx and OpEx, in our core technologies to be higher than last year. Particularly, we're investing in enhanced content software for the automotive industry and in our new map-making platform.

That concludes the formal part of the presentation. I would now hand over for questions.



## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Andrew Gardiner, Barclays.

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### Andrew Gardiner - Barclays - Analyst

I was hoping to get a bit more detail on the automotive side of the business. I was just interested in an update on the competitive dynamics and customer positioning; more specifically, I was wondering whether you've noticed any change in customer approach to sourcing since the announcement of the HERE sale to the three German automakers. Has there been any sort of change in how these guys are approaching contracts?

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### Harold Goddjin - TomTom NV - CEO

Andrew, thank you. Yes, there is [here] a number of trends I think in the automotive industry that are worth commenting on. I think first of all, it seems to us -- it looks and there's increasing evidence that NDS as a map format is taking hold. That's important for us; it's a new industry standard. We have seen it leading in that domain both in terms of map compilation, incremental updates, and software. I think that's a good trend for us; it also reduces the cost of switching for existing customers. And all that plays in our favor because we have to gain market share.

We see that our full suite of technology is maturing and that leads to more contract wins. We've also seen a strong first quarter in terms of order intake. We will not disclose the exact number, we'll do that later, but we are on track in winning customers. And we also see that there is quite some uncertainty about HERE that will not last forever, but there is uncertainty. And that means that it's easier for us to get access to new customers and talk about future opportunities.

So it will take time to exactly understand what HERE is going to do, and how that will be valid. But I think, for the moment, this is a good time for us to strengthen relationships, build new ones and win deals.

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### Andrew Gardiner - Barclays - Analyst

Thank you for that. Also, just picking up on some of your final comment there, I'm just wondering from a strategic perspective whether you see any shift. There continues to be talk of other companies joining or investing in here, including some very big tech players, Amazon and Microsoft, have been talked about in recent weeks. Would that type of activity change your view on needing to partner in this part of the market?

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### Harold Goddjin - TomTom NV - CEO

We'll need to see, Andrew. I think it's too early to comment. We really need to wait until there's white smoke coming out of the German factories to really understand what that [control chimney] will look like and what the appropriate reaction would be for us.

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### Andrew Gardiner - Barclays - Analyst

Understood. Thank you very much.

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### Operator

(Operator Instructions). Marc Hesselink, ABN AMRO.

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**Marc Hesselink** - ABN AMRO Bank - Analyst

The first one is also coming back on the automotive one. If you look now at market shares, what do you think that the share is that you're taking in the market at the moment? And also, do you see some activity outside TomTom or here now that with Android out? Or you see that also there you're now using the Google maps? What are you seeing on that front?

And then secondly, you launched the multiple geographies, the high-definition map, how is that being used at the moment? Is that being used by partners? Is it being used in general by a lot of players in the market? Do you get data in return, or do you get some returns already on that one? Could you explain that in a bit more detail, please?

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**Harold Goddjin** - TomTom NV - CEO

So your first question, what is our market share and order intake, so what percentage of available business are we winning? It's difficult to give you a number there, but we think it's significantly higher than what our current market share is in shipments. We're confident that we're winning market share at the moment, but I can't put an exact number on the percentage there.

Second question is Google and Apple going into dashboard. Yes, we see that happening. We see that some car makers and head unit vendors are offering screen replication functionality for both Google and Apple. But we also see that the penetration of built-in navigation in cars is going up at the same time. It's still surprising that there is still a big market to win for built-in navigation. We see penetration rates going up not down.

The car industry is unwilling to hand over the keys of their infotainment system to what could potentially be competitors. They want to keep a control and influence on what's happening in the dashboard. I think everybody in the car industry is really busy organizing themselves and getting better at software and I think that's a favorable development for us.

On the last item, what's happening with RoadDNA and HD maps, we do a lot of stuff for the car industry for autonomous driving but our core products are RoadDNA and high-definition maps. High-definition maps are maps that reflect all the lines and the barriers and the crossings in high-level detail and precision that is needed to understand where a car is and where it needs to go to for longer term planning.

And we provide RoadDNA and RoadDNA is a portal for localization. So the GPS signal alone is not accurate enough to determine the position of a car on the road. RoadDNA is technology that helps achieving up to 10 centimeter accuracy knowing where that car is, and that is important for steering it and planning the movements of that car.

We're working with a number of car makers. They're also in development and research phase, as you can understand. A lot of car makers are using our maps, testing them, integrating them in their software. We get feedback for that, both on the map itself and RoadDNA. That is important for us so we understand what the needs are and how those needs are developing. But those portals are not in production yet in the sense that they are shipped with cars.

So we don't get, at this moment, sensor-derived observations back from car makers to maintain those maps and detect changes and errors in the dataset that we provide. But it's definitely part of our plan, of course, to close that loop and help with positioning but also get data back from the car to understand where their maps are out of date.

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**Marc Hesselink** - ABN AMRO Bank - Analyst

Okay. Thanks, that's clear. Maybe as a follow-up, how do you see that product, the combination of RoadDNA and the high-definition map, how does that compare to the competition at the moment?

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**Harold Goddjin** - *TomTom NV - CEO*

Well, people are trying different things. I think there are, with our technology, offers a number of advantages. We are capable of compressing it very effectively. It works; it is forgiving for noise. All that is, of course, really important.

I don't think the time is now to call for a winner. Everybody's working hard and refining their technologies and testing their technologies. But it is too early to call victory. But we are encouraged by the results and the feedback we get from our strategic partners.

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**Marc Hesselink** - *ABN AMRO Bank - Analyst*

Thanks.

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**Operator**

Francois-Xavier Bouvignies, UBS.

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**Francois-Xavier Bouvignies** - *UBS - Analyst*

I have a couple of questions, if I may? So the first one is on your take-up market share rate; how do you explain it? What is the main driver behind it? Is it because Nokia HERE is in transition, for example, or is it price related, product related? So if you could give us some color it would be great.

The second one that I had is, can you give us a sense of the shape of revenues in 2016? Given that you have strong revenues in automotive, it would be interesting to see how you see it shaping.

And the last one is your relationship with Volkswagen. It's been nine months now that Nokia HERE has been [bought]; how do you see this relationship, going forward? Is there any disruption in the strategic relationship? Or maybe, from your point of view, are you less -- more reluctant to work with them? Can you give us your view on this? Thank you.

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**Harold Goddjin** - *TomTom NV - CEO*

So on the market share, again, is it product related, price related? I think OEs like our story. Our approach, we've proven over the years that we're reliable partners in bringing products to market successfully. We are building on our reputation. Our map quality has improved significantly over the last three years. Our customers like our real-time map story. We are leading in traffic, we're leading in routing, so there's a lot to go for.

And I think all that is coming together now and there's more and more proof points that we're actually delivering according to plan. So it's really a combination of product quality, technology, roadmap, but also we continue to build on our reputation of being a reliable partner and vendor.

I hand over the revenue development line. I'm going to hand it over to Taco but before that, I will give you some comments on the Volkswagen relationship. I think we have a good relationship with Volkswagen, but I think it's too early for us to judge how that relationship will develop over the coming years. I think we need to see what's happening with HERE, how they're going to play that and then understand exactly what the future will bring. I can't comment more than that on this.

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**Taco Titulaer** - *TomTom NV - CFO*

On the revenue mix, it's interesting to note that, in the first quarter, for the first time I think ever, we saw content and services revenue being larger than hardware revenue in the mix. It's also reflected in the gross margin that we report of 57%, so that is a proof point.



What we said earlier in the year, two months ago, that we see telematics and automotive will continue to grow, and licensing is expected to end up flat year over year for the full year, and consumer also flattish, where we see a decline in PND what is compensated by the growth of our success in the sports segment.

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**Francois-Xavier Bouvignies** - UBS - Analyst

Okay. And your sports segment, can you give us an update on 2016, what is your target here?

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**Taco Titulaer** - TomTom NV - CFO

So we provide an update on that on a yearly basis what the actual revenue is. What we can say, as an indicator, is that the sellout, which we track because we see the activations of users using our product, has gone up. It has doubled, year over year, Q1 compared to Q1 last year. It's an indication of growth. We don't want to provide, at this point, exact numbers but we're looking at double-digit growth and I mean high double-digit growth.

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**Francois-Xavier Bouvignies** - UBS - Analyst

Great. Thank you very much.

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**Operator**

[Saul Rubin, Haitong Securities].

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**Saul Rubin** - Haitong Securities - Analyst

Just with respect to the gross margin, it's better today than it has been for a while; you talk about the revenue mix change driving that. I just wonder, as we go forward, should we expect the gross margin to continue to rise from here.

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**Taco Titulaer** - TomTom NV - CFO

So two months ago, when we gave guidance, we guided towards a 2 or 3 basis points increase of our gross margin. Two months later, I think we can be a bit more bullish, so more towards 3 to 4 basis points increase compared to last year.

On the other hand, due to the success of our order intake, we will see also some additional OpEx. So bottom line, the effect is neutral. Gross margin, with the change of our product mix, the change of the business units contributing to our revenue, we'll see an increase, indeed, over the coming years.

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**Saul Rubin** - Haitong Securities - Analyst

Okay, thank you. And second question, you talk about the inventory being higher in the first quarter and I just wondered whether that's -- I understand the (multiple speakers)

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**Taco Titulaer** - *TomTom NV - CFO*

Yes, there are three things here. One is that we decided to put a bit more on boats compared to planes, so it's lower in our position. The other thing is that with broadening our lineup in consumer, widening the number of SKUs, there's also an underlying trend that we need to keep a bit more inventory. And the third one is that we bought some product forward, although this is all according to plan.

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**Saul Rubin** - *Haitong Securities - Analyst*

Okay, very good. And my final question, you talk about extracting value from the PND business as it declines, which I guess means you will continue as long as you generate cash from that business. And I just wondered whether a point is reached at which you do think about exiting the business, in particular the US business, which is a relatively small part, are we getting close to the point where you might evaluate the situation such that an exit from that business in the US may be better for the Company?

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**Harold Goddjin** - *TomTom NV - CEO*

Now I don't want to speculate on that at this point. It's not what we're planning to do and that's it. I can't make comments for the future for what we're going to do either with PND or in North America at this stage.

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**Saul Rubin** - *Haitong Securities - Analyst*

Okay. Thank you.

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**Operator**

Hans Slob, Rabobank.

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**Hans Slob** - *Rabobank Equity Research - Analyst*

Two questions. First is on automotive; should we expect that sales growth for automotive will accelerate in the course of 2016 also as the large PSA contract is now on stream? That's my first one.

And second is, your wins in automotive are very impressive, more clients are dual-sourcing. But given the long lead times of contracts, should we also expect OpEx and CapEx growth to continue also in 2017, based upon the strong order intake?

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**Taco Titulaer** - *TomTom NV - CFO*

Hans, thank you for asking that question. You know my answer on these questions, but especially on the latter one. But on the first one, we guided for automotive that we will see a high teens' growth. So as we had 26% in the first quarter, that means that it will not accelerate during the rest of the year, because Q4 last year, for example, we also already saw automotive turning the corner and starting to grow again, etc. But anyway, this is all according to plan. There's no change in guidance, but Q1 was a bit stronger than what we see in the rest of the year as a percentage growth.

On OpEx and CapEx, what I said on the gross margin, so that we expect gross margin to be a bit stronger in 2016, I think OpEx will be a bit higher in 2016. CapEx, I don't expect any growth compared to previous year or a higher number than what we gave earlier in the year. And for 2017, you need to wait 10 months and then we'll give you an update on that.

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**Hans Slob** - Rabobank Equity Research - Analyst

Okay, cool. Thanks a lot.

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**Operator**

(Operator Instructions). [Vikram Kumar, TT International].

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**Vikram Kumar** - TT International - Analyst

Just in terms of the order book for automotive, can you just help me understand, is that pretty much all from navigation capability demand from the OEMs? Or is there also demand within that for ADAS and autonomous functions starting to come through now in the order book?

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**Harold Goddjin** - TomTom NV - CEO

Nothing is coming through for autonomous driving, except for test licenses. But the amount of money involved there is really small, to be honest.

ADAS is firmly on the radar and is firmly also in the order intake, so that's coming through, that's happening. Also for safety functions derived from map data are starting to get integrated on a larger scale now in more cars, so that's happening as well.

The last development that I'd like to point out in automotive is also that we are getting closer with our telematics products into the automotive industry. That is not for fleet management typically, but for connected car services.

We've started to build in the flexibility on that platform, in our telematics platform, to service those types of use cases. We're starting to go out with those products and show them to the automotive customers and we think we will get some traction in that part of the business as well.

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**Vikram Kumar** - TT International - Analyst

Perfect. And also, in terms of, I guess, the timeline for autonomous and more highly automated driving, there was a Goldmans' conference in New York, where they had Cars 2025, lots of big suppliers, Tesla, Mobileye, those kind of characters were there. And it seemed like the timeline had shortened in terms of what people thought, maybe one year or 18 months ago, in terms of when these kinds of capabilities would be brought into the car.

And I guess also with the Tesla autopilot having caused a bit of a splash as well of late in terms of some excitement round there, in terms of doing the [seaming] autonomy there. What are your views on the timeline and when that might start feeding through into your backlog, please?

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**Harold Goddjin** - TomTom NV - CEO

I find that difficult to say, at this stage. I think it will be a gradual path to more autonomy in the car. It will not be a big splash; it will be a gradual improvement to higher levels of automation.

There is, of course, a big moment in time where you go from 99% self-driving to 100% self-driving. I think getting that last percent right is obviously critical and probably the hardest thing to achieve. And that's also when you get the full benefit for the highly detailed maps that we are providing. And the need for those HD maps when the cars are semiautonomous is less and not as important.



At the same time, there will be intermediate products also from us that will help guidance. So even if those maps that we're now producing are not used for autonomous driving, they will be used for better visualization, increasing situational awareness and lifting the whole navigation experience to a level that we have not seen before in terms of accuracy and clarity.

So also for the maps that we are producing, we see a gradual introduction where they will start to become visible, but then not necessarily used to the 100% of where they were designed for in the beginning.

Now timing, difficult. Personally, I don't think that the 100% self-driving car will be there on the road before 2020, but I'm also not 100% sure of all the developments. And, of course, car makers treat this type of information also as trade secrets and commercially sensitive, so there's not 100% transparency in who will be first and what will happen exactly.

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**Vikram Kumar** - *TT International - Analyst*

Okay. And I guess in terms of -- okay, that's fine. Thanks, Harold.

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**Operator**

Sander van Oort, Kempen.

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**Sander van Oort** - *Kempen & Co - Analyst*

A quick question on the new map-making platform. Maybe you can update us on the status where we are today; is it already fully implemented, or is it still some regions that need to go to the new platform?

And then, as a bit of a follow-up, on the financial implications, are we still confronted with some double running costs which negatively impact the cost level this year? And could we maybe expect some lower costs or cost savings in the years to come from the new platform? Thank you.

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**Harold Goddijn** - *TomTom NV - CEO*

Yes, Sander, it is implemented for most territories. I would say 90% of the territories are running now the new map-making platform and there are very few that are not.

Australia's one because it was an acquisition. Yes, last year, we bought a mapping company last year, so we haven't transformed them, but it's now a mainstream product. It's in full use. We're tuning it. We're getting rid of the -- it is a full production. We are tuning it; we're getting better results every day from that platform and that is good.

Before we get the full benefit, so this whole platform is really designed to lay the foundation for automated map making. Map making is still a very laborious job. We want to have much higher degrees of automation, going forward, and having the platform is foundational because now we can start the automation of map making itself. And that is really exciting, obviously, because that has a promise of reducing map-making cost and improving quality and freshness of the map by a factor.

That's [not] where we are today. We're not much more efficient than we used to be, but we will build on that efficiency soon and then, we will see real cost benefits, quality benefits and timing benefits coming through in 2017 and beyond.

This is a transition year. We're adapting our processes. We will change the organization. We have much more flexibility in how we can organize our work and our workforce, so that will give advantages, and then the real advantages of automation will come through in 2017 and beyond.



**Sander van Oort** - *Kempen & Co - Analyst*

Okay. Thank you.

**Bisera Grubestic** - *TomTom NV - Head of Treasury & IR*

Thanks, Sander. That was the last question for today's call. I would like to thank you all for joining us this afternoon. If you have any follow-up questions at a later time, please give us a call or send us an email. Thank you all very much. Operator, you can close the call.

**Operator**

Thank you. That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.

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