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Q1 2018 M1 Ltd Earnings Call

EVENT DATE/TIME: APRIL 16, 2018 / 9:30AM GMT



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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the M1 First Quarter 2018 Financial Results Presentation and Question-and-Answer Session. Today's conference is being recorded.

At this time, I would like to turn the conference over to Mr. Ivan Lim. Please go ahead, sir.

Ivan Lim *M1 Limited - Director of Corporate Communications & IR*

Hello, everyone. Welcome to our results conference call. Today, our presenters are CFO, Kok Chew; and CMO, Subra. Also in attendance are CEO Karen, COO Patrick, and CIO Alan. The results materials have been e-mailed to you. You can also expect them through the usual channels.

We will start with Kok Chew, on the overview and financial highlights; Subra, on performance highlights; and back to Kok Chew, on developments and outlook for 2018. After that, we'll open the lines for questions.

With that, I'd now like to hand over to Kok Chew.

Kok Chew Lee *M1 Limited - CFO & Chief Commercial Officer*

Thank you, Ivan. Please note that all figures in our results are based on the new financial reporting framework IFRS 15, which took effect from 1st January 2018. A comparative for FY 2017 have also [been will be] [written] accordingly. For reference, we have also included previously reported numbers for comparison purpose.

For first quarter 2018, service revenue increased 3% year-on-year to \$185 million. Fixed services revenue grew 13.9% year-on-year to \$32 million. Net profit after tax was 8.3% higher Q-on-Q and stable year-on-year at \$35 million. Mobile services revenue increased 2.6% year-on-year to \$141 million. Contribution from mobile data increased to 61.3% of service revenue, up from 54% a year ago.

During the quarter, we net added 12,000 postpaid customers to bring the base to 1.3 million. Fixed services accounted for 17.3% of service revenue in the latest quarter, compared to 15.6% a year ago. And our [fiber] customer base increased 5,000 Q-on-Q to 194,000. The growing Corporate and Government segment contributed around 37% of service revenue and reported 19% year-on-year growth in the first quarter of 2018.

Let's move on to Slide 4. For our first quarter 2018, operating revenue increased 0.5% year-on-year to \$254 million, due to higher fixed services revenue and mobile revenue. Service revenue increased 3% year-on-year to \$185 million. On a segmented basis, mobile revenue was 2.6% higher year-on-year at \$141 million, driven by higher [postpaid] revenue.



International call services revenue was 14.8% (sic) [15.8%] lower year-on-year at \$12 million due to lower retail revenue. Fixed services revenue increased 13.9% year-on-year to \$32 million, driven by higher customer base. Asset sales decreased 5.6% year-on-year to \$69 million due to lower sales volume.

We turn to Slide 5. Cost of sales decreased 4.5% year-on-year, so our first Q [is in] \$102 million related to lower handset costs at prepaid centers. Handset cost decreased 5.5% year-on-year to \$71 million due to lower sales volume. Wholesale costs of fixed services increased 2.5% year-on-year to \$14 million, driven by higher customer base.

Slide 6. Our first quarter 2018 other operating expenses increased 6% year-on-year to \$107 million. Staff costs increased 5.6% year-on-year to \$32 million due to salary improvements. Depreciation, amortization expenses decreased 4% year-on-year to \$30 million due to some 3G network assets being fully depreciated. Interest expense increased 41.9% to \$2.8 million due to higher borrowing and interest rates.

Slide 7. Our first quarter 2018 EBITDA was 2.3% lower year-on-year [at \$75 million], EBITDA margin was at 40.8%. Profit after tax for our first Q has been stable year-on-year at \$35 million and margin on service revenue closed at 18.8%.

Slide 8, on CapEx and cash flows. Our first Q '18 CapEx decreased \$24 million to \$23 million due to completion of some nonrecurring CapEx projects in the prior year. Operating cash flow decreased \$1 million to \$47 million due to working capital changes, the cash flow was higher at \$24 million.

Financial leverage. As of end March '18, net gearing and net debt to EBITDA was 0.7x and 1.2x, respectively. I'll now hand over to Subra.

Poopalasingam Subramaniam M1 Limited - CMO

Starting with Slide 11. For first quarter 2018, our postpaid customer base grew by 12,000 quarter-on-quarter to 1.3 [million], driven by the take up of SIM-only plans and contribution from MVNO. Prepaid customer base declined by 59,000 to 688,000. Market gross [adds] in the quarter was driven by costly incentives offered to retailers by competitors. We continue to acquire margin-accretive customers and drive top-ups. Our fiber broadband base increased 5,000 during the quarter to 194,000.

Next slide, for the latest quarter, postpaid ARPU decreased 3.2% quarter-on-quarter at \$54.60 due to dilutive effect of SIM-only plans. SIM-only plan customers now make up 12% of our postpaid platform customer base. Prepaid ARPU decreased 4.9% quarter-on-quarter to \$9.90 as we offered bigger bundles to drive top-ups. Fiber ARPU for the quarter was stable quarter-on-quarter [at \$43.70.]

Slide 13, for the latest quarter, acquisition cost increased 12.4% year-on-year to \$411 due to the increased take up of iPhones on higher-end plans. Quarter-on-quarter, it decreased 13%. Postpaid monthly churn decreased quarter-on-quarter to 1%.

Next slide. As at end March 2018, postpaid customers on tiered data plans was 81%. Overall, 29% of the base exceeded their primary plan bundles, and 9% exceeded their total bundle. This is attributed to the bigger data bundles that come with our new plans. Average postpaid data usage continued to grow to 4.5 gigabytes per month compared to 3.7 gigabytes per month a year ago. Mobile data revenue contributed 61.3% of service revenue in the latest quarter.

I'll hand you back to Kok Chew.

Kok Chew Lee M1 Limited - CFO & Chief Commercial Officer

I'm on Slide 16. So we'll continue to strengthen our [telco core] to compete on quality service and customer experience. This includes enhancing our offerings and value propositions to address the needs of our customer, digitalizing their experience and improving operational efficiency.

Today, we have 56% of total transactions being made online, with 78% of smartphone customers using MyM1 app. We're also investing in advanced technologies, such as HetNet and IoT, which have formed the foundation for 5G. 5G network rollout will be demand driven, catering to B2B and B2B2C solutions and vertical [industries.] The partnership with MVNO helps to address niche segments with unique

propositions. These partnerships contribute to wholesale revenue and customer base without acquisition and maintenance costs.

Next slide, Slide 17. We are well placed to capture growth opportunities in the Corporate and Government segment, driven by corporate digital transformation and Smart Nation initiative, which are gaining momentum. We are scaling up capabilities through investment in portfolio of business solutions to complement our core business in the areas of Smart Nation, FinTech and cybersecurity. We continue to expand our suite of products to cater to corporate needs through acquiring ICT capabilities and competencies, enhancing our human capital with skill upgrades as well as by partnering with industry leaders in technologies and solutions.

On Slide 18, our estimate -- 2018 we estimate CapEx of [around \$120 million] and aim to maintain 80% dividend payout ratio.

With that, I go back to Ivan.

Ivan Lim M1 Limited - Director of Corporate Communications & IR

Thank you, Kok Chew, Subra. We shall now proceed to the Q&A session. Anna, can we open the line for questions now?

Operator

Yes. Certainly, sir. (Operator Instructions) Our first question comes from Luis Hilado from Maybank.

Luis A. Hilado Maybank Kim Eng Holdings Limited, Research Division - Senior Research Analyst

I have 3 questions. The first one is regarding the accounting change. Just wondering if there's any cash tax or tax implication from the change. Second question is regarding the statistics on SIM-only, is it 12% of the base? Just wondering if you can give indication whether most of them are under the 12-month contract plan or not on contract. And last question is for the data usage increasing. Does that include the volumes from Circles or that's pure M1?

Kok Chew Lee M1 Limited - CFO & Chief Commercial Officer

Okay. So Luis, on your first question, on the accounting change, right. Cash flow, no difference except for the tax because of the change in accounting standards. There will be increase in the tax paid that, in fairness, we factored in our balance sheet. [We] can see that. And that's onetime payment to IRAS. However, the period, the timing, et cetera, those have yet to be finalized.

Luis A. Hilado Maybank Kim Eng Holdings Limited, Research Division - Senior Research Analyst

How about the -- sorry, the amount is how much?

Kok Chew Lee M1 Limited - CFO & Chief Commercial Officer

Now we are estimating about \$13 million, 1-3, (inaudible).

Poopalasingam Subramaniam M1 Limited - CMO

For the second question, as we said, 12% on SIM-only plans. There is incentive for our customers to sign onto a contract. But I think at this stage, we are not going to disclose the breakdown as yet.

Kok Chew Lee M1 Limited - CFO & Chief Commercial Officer

So the third question, those data usage information are all M1 customers, excludes the MVNO customers.

Operator

We will now take our next question from Sachin Salgaonkar from Bank of America.

Sachin Shrikant Salgaonkar BofA Merrill Lynch, Research Division - Director

I have 3 questions. First, I was wondering if you guys could help us on numbers for 1Q on revenue and EBITDA. Have you guys been following the [whole] accounting method? Second, I did see your prepaid subscribers, because, clearly, you did mention on the numbers, the ARPU going down because of bigger bundles. But despite that, the subscriber number decline was a bit steep. So I just wanted to understand what's going on? Are we seeing higher competition out there? And lastly, your fixed services revenue momentum continues to remain strong, just wanted to understand how sustainable this is.

Kok Chew Lee M1 Limited - CFO & Chief Commercial Officer

Okay. Sachin, on your first question, you are referring to whether we have a number of postpaid activity presented in the [whole] accounting method. Is that, right?

Sachin Shrikant Salgaonkar BofA Merrill Lynch, Research Division - Director

Yes. So you sort of changed all the historic numbers based on new accounting method. I was wondering if you have 1Q '18 on your new accounting method. Yes.

Kok Chew Lee M1 Limited - CFO & Chief Commercial Officer

I'm sorry. We don't have, because we are -- as I said, going forward all these numbers will be reported under the new accounting standard.

Sachin Shrikant Salgaonkar BofA Merrill Lynch, Research Division - Director

Okay, got it. But just so now a big picture view, if I look at the service revenue and if I look at EBITDA, directionally, in what direction it is going? Service revenue is going down a bit, and how is the momentum on EBITDA, generally?

Kok Chew Lee M1 Limited - CFO & Chief Commercial Officer

So if you, generally -- based on these accounting standard, what you will see that if you compared this against the previous way, previous reported number, you'll see that service revenue will be lower because the asset then -- our customer contract value (inaudible) formerly allocated to the handset sales. So that's what you'll see. Next, on the increase on EBITDA, generally, you will see a higher trend, depend [on some external] also affected by the volume handset sales in the current year or current quarter as well.

Sachin Shrikant Salgaonkar BofA Merrill Lynch, Research Division - Director

Okay. Possible to quantify any range for that?

Kok Chew Lee M1 Limited - CFO & Chief Commercial Officer

So as I said, I also did a comparative for 2017. You have the (inaudible). You can compare 2017 number compared to the [old] basis. Rest of 2018, we are reporting -- and going forward, we are reporting under the new accounting standard.

Poopalasingam Subramaniam M1 Limited - CMO

Okay. So coming to your second question on the prepaid numbers, what I said earlier was that the gross adds in the quarter were driven by very costly incentives that were given to retailers who were -- by our competitors, who were activating their cuts. Now we did not participate in that, but we continued to acquire margin-accretive customers as well as to drive top-ups. Did you get that?

Kok Chew Lee M1 Limited - CFO & Chief Commercial Officer

Sachin, on your third question on fixed services revenue, right, we estimate seeing that this momentum will continue to grow in a meaningful way for a [second] year. We have actually secured some new corporate contract in this [segment,] of which you will revenue accrue in the coming quarters.

Sachin Shrikant Salgaonkar BofA Merrill Lynch, Research Division - Director

Okay. Okay. And just one last question. I did see media I think talking about M1 sort of tying up with Keppel Electricity for giving electricity for our power lines. Just wanted to understand timing implications or whatever you could share regarding that.

Poopalasingam Subramaniam M1 Limited - CMO

The electricity market has been opening up. Right now, the opening up is only within the Jurong area. So we have a marketing tie up with Keppel, so customers coming into our IMM store can get certain incentives when they sign up to both services. But we continue to talk to them to explore and expand on this.

Operator

We take our next question now from Wei-Shi Wu from BNP Paribas.



Wei-Shi Wu BNP Paribas, Research Division - Analyst

I noticed in your comment earlier that the prepaid base was down this quarter because M1 did not participate in some of the competitive activities happening in the sector. Can I just check which operator or operators have been present in the prepaid segment?

Kok Chew Lee M1 Limited - CFO & Chief Commercial Officer

Everybody else in the market except us, so both.

Wei-Shi Wu BNP Paribas, Research Division - Analyst

Well, to say it another way, have you been seeing heightened aggression from some of the new players or is it sort of business as usual, condition driven by the incumbents [more?]

Kok Chew Lee M1 Limited - CFO & Chief Commercial Officer

So in the prepaid segment, there are no new players, okay? So primarily, the 2 main -- 2 other MVNOs are the ones. I think this is...

Poopalasingam Subramaniam M1 Limited - CMO

MNOs.

Kok Chew Lee M1 Limited - CFO & Chief Commercial Officer

Sorry, MNO, are the ones doing that.

Operator

We will now take our next question from Sriniv Rao from Deutsche Bank.

Srinivas Rao Deutsche Bank AG, Research Division - Research Analyst

My first question is on your, again, on the impact of accounting, which I think someone alluded in the past. If I just look at the restatement of your first quarter numbers, there's almost a \$20 million kind of an impact. Can we take a proportional impact for this quarter restatement, that is increase your reported number under the new accounting standard by that amount or -- and to get apples-to-apples comparison, is that a fair way to look at it? If not, then how should we interpret your, at least on paper, a fairly robust 3% or 2.5%-plus mobile revenue growth? Is that mostly on account of an accounting adjustment? Or there's an underlying improvement in usage revenues? That will be helpful. Second, you had a separate way of accounting -- different way of accounting in the past also for your Apple iPhones and non-Apple phones. So now, does -- did this have an impact when you transitioned? So that's my second question. Thirdly, on the prepaid side, is there any particular reason why the prepaid market, which is a fairly small low-ARPU market in Singapore, why -- any probable reason why it got competitive?

Kok Chew Lee M1 Limited - CFO & Chief Commercial Officer

Sriniv, on your first question, I think perhaps I think the best thing for me to do is to refer you to Slide #4, we're looking at the revenue, right. (inaudible) I was hopeful in the previously reported number that is a trend that we -- that perhaps we can take guidance from, rather from (inaudible) how much we adjust for 2018, yes. Your second question is on iPhone, right? iPhone treatment that we previously have been [authorized], yes. So the difference is that because, to a certain extent, the iPhone treatment, you see, mirrors the current -- the IFRS 15 treatment, hence you see that the transition impact arising to the equity is not as high because we took that in previous years already.

Poopalasingam Subramaniam M1 Limited - CMO

On your last -- back to prepaid. Just to emphasize, we did not participate in this highly costly incentives, largely because they are not profitable if we do that. And I think you asked why, so I think you really, as you have guessed it, this is market share driven.

Srinivas Rao Deutsche Bank AG, Research Division - Research Analyst

You don't see any other reason except more aggressive acquisition of prepaid subscribers?

Poopalasingam Subramaniam M1 Limited - CMO

No.



Operator

We'll now take a question from Rama Maruvada from Daiwa Caption Markets.

Ramakrishna Maruvada *Daiwa Securities Co. Ltd., Research Division - Head of Singapore Research*

Again, a quick follow up on the prepaid and the IDD side, please. Could you comment a little bit on the IDD volumes at the last revenue? Is this mainly on account of the prepaid business [that you've been not part spending on the prepaid?] Or is there something else going on? Because the revenue seems to be a little bit lower on a year-on-year basis, on the last quarter-on-quarter.

Kok Chew Lee *M1 Limited - CFO & Chief Commercial Officer*

So the international revenue is attributed largely by the prepaid, but there are also other -- from postpaid as well as roaming revenue that goes into the international revenue. But as you know, international as a whole has been declining. And with the voice usage on prepaid declining, we are seeing that impact. So today, quite -- most of the prepaid customers are already carrying smartphones. And they are using OTT apps to make their call or communicate via messaging and so on. So I think you'll see that impact. Or we've seen that impact on IDD revenues.

Ramakrishna Maruvada *Daiwa Securities Co. Ltd., Research Division - Head of Singapore Research*

Do you actually see this segment stabilizing at some point? Or is -- I mean, this has been on a declining trend for years now, so I'm just wondering is there -- are there any signs of stability? Or are we still far away from that?

Poopalasingam Subramaniam *M1 Limited - CMO*

So actually, last year, we saw this coming down at a much slower pace. So I think that the decline will continue, but probably at a slower pace. And also, the first quarter was a fairly short quarter.

Operator

We will now take a question from June Supa from Goldman Sachs.

June Supapannachart *Goldman Sachs Group Inc., Research Division - Research Analyst*

Just one question from me. Just wanted to follow up on the question on the fixed services momentum, just wondering whether you can maybe shed some light on how or what strategies you've been implementing that has allowed you to grow so well? And then whether this growth is mainly coming from you growing market share in the segment or whether the overall segment is growing.

Kok Chew Lee *M1 Limited - CFO & Chief Commercial Officer*

Actually, where we have been expanding the sales solution that we provide to the customers, both the Corporate and Government segment. I mentioned previously that we secured a few major contracts, making good inroads into both the Corporate and Government segment. So a lot of these projects you can see that we have secured, you see the revenue accruing in [these 2] quarters. So it's actually driven by inroads into the segments.

Operator

We will now take a question from (inaudible)...

Unidentified Company Representative

(inaudible)

Operator

Our next question, sorry, sir, is from Varun Ahuja from Crédit Suisse.

Varun Ahuja *Crédit Suisse AG, Research Division - Associate*

Just got 2 questions. On service revenues on the mobile side, under the new accounting standard, should we expect some seasonality? My understanding is it should -- given now you're taking out the handset component to that seasonality, should more be in the handset, but a little bit on the service revenue. But looking at the numbers, it seems there is some seasonality. Is it due to usage factor? Or any



clarity -- any clarification on that will be helpful. Secondly, is it fair enough to say that the Y-o-Y growth in mobile revenue is largely contributed by your MVNO partner?

Kok Chew Lee *M1 Limited - CFO & Chief Commercial Officer*

So on your question on seasonality. Yes, there are some seasonality in the revenue. As you know, for example, this quarter is a short quarter. Our less number of days, usage could be lower as a result, that's one. Two, is also if you're talking about let's say first Q, there's a lot of travel then you'll have higher roaming revenue contribution as well. So there are seasonality as well. The growth in the mobile revenue is a combination, as I think as we mentioned. One is contribution from MVNO; two is also we also sign up customers on high-end plans as well. And also, our Data Passport, that has helped to bring in revenue as well.

Operator

We'll now take a follow-on question from Luis Hilado from Maybank.

Luis A. Hilado *Maybank Kim Eng Holdings Limited, Research Division - Senior Research Analyst*

Just 2 follow up questions from me. The first one is regarding fixed network under the new accounting versus the old accounting. If I'm calculating it correctly, first quarter and fourth quarter last year, there seems to be a 7% gap, what's the reason for that? Is there -- was there like equipment subsidies in fixed network? And second question is if you have any full year guidance based on the new accounting standards for revenue growth and EBITDA margin.

Kok Chew Lee *M1 Limited - CFO & Chief Commercial Officer*

Luis, we [allocate] the fixed services revenue from 4Q '17 compared to 1Q '18. In fact, it may very much because of a major power project in the Corporate segment, where buildings can be lumpy from quarter-to-quarter. The second question, no we are not providing any business estimate for full year at this point in time in our revenue.

Operator

We'll now move to a question please from Arthur Pineda from Citibank.

Arthur Pineda *Citigroup Inc, Research Division - Director and Head of Pan-Asian Telecommunications Research*

Just one question with regard to the margins. You mentioned you signed new enterprise contracts recently. I was wondering, what is the margin differential between your fixed line consumer versus your fixed line enterprise segment?

Kok Chew Lee *M1 Limited - CFO & Chief Commercial Officer*

Arthur, we don't disclose at that level of detail within fixed line (inaudible) into the margin.

Arthur Pineda *Citigroup Inc, Research Division - Director and Head of Pan-Asian Telecommunications Research*

Understood. But directionally, is this enterprise notably lower for you versus your consumer business?

Kok Chew Lee *M1 Limited - CFO & Chief Commercial Officer*

No. Enterprise will be higher compared to consumer. You look at ARPU and margin.

Operator

(Operator Instructions) We'll take another question now from Jonathan Koh from UOB.

Jonathan Koh *UOB Kay Hian Research Pte Ltd - Director*

I just want to check on Page 2 of your slide, the non -- the figure, 37%, of service revenue is from Corporate and Government segment. Is that referring to just the fixed services segment? Or is it the entire company, encompassing both fixed and mobile services? Just want to clarify that.

Kok Chew Lee *M1 Limited - CFO & Chief Commercial Officer*

Jonathan, that is both fixed and mobile.



Operator

We have a follow-on question from Wei-Shi Wu from BNP Paribas.

Wei-Shi Wu BNP Paribas, Research Division - Analyst

Kok Chew your comment earlier about the fixed line enterprise ARPU and margin, the margin being higher than fixed line consumer. Is it accurate to say, though, that the fixed line enterprise margin is [too] lower than the overall blended margin for M1?

Kok Chew Lee M1 Limited - CFO & Chief Commercial Officer

So the blended fixed margin is lower than all our margin, that's correct.

Wei-Shi Wu BNP Paribas, Research Division - Analyst

So your fixed line enterprise margin would still be lower than your -- the blended margin for M1, the overall margin, which is at about 30%.

Kok Chew Lee M1 Limited - CFO & Chief Commercial Officer

Yes, I think that is the correct -- that's the correct treatment, yes.

Operator

We now have a follow-on question from Sriniv Rao from Deutsche Bank.

Srinivas Rao Deutsche Bank AG, Research Division - Research Analyst

This is Sriniv here. I just want to understand again the impact of the accounting, so just to get a better sense of the underlying trends. Let us know if we are wrong, but it seems that if we adjust for numbers, then the revenue fall from the '17 -- for the fourth quarter and now, it looks like in the region of 10% to 12%. Is that a correct number for mobile revenues or we all got it wrong?

Kok Chew Lee M1 Limited - CFO & Chief Commercial Officer

Sriniv, I think -- I don't really get your -- (inaudible) numbers, maybe we can take it offline on these revenues.

Luis A. Hilado Maybank Kim Eng Holdings Limited, Research Division - Senior Research Analyst

Yes. Okay, that's all right. We'll do that. Okay. Okay.

Operator

And just to confirm that we have no further questions queued. So at this time, I would like to turn the conference back to Mr. Ivan Lim for any additional remarks. Thank you.

Ivan Lim M1 Limited - Director of Corporate Communications & IR

Okay. Since there are no further questions, thank you all for joining the conference. We'll speak again next quarter. For those of you who have more questions on -- particularly the [IFRS] new accounting treatment, feel free the IR department after this. All right, see you again. Bye-bye.

Operator

Thank you. Ladies and gentlemen, that now concludes today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.



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