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FDR.MC - Q1 2018 Fluidra SA Earnings Call

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## CORPORATE PARTICIPANTS

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**Eloi Planes Corts** *Fluidra, S.A. - Chairman, CEO & Executive President*

**Xavier Tintore** *Fluidra, S.A. - Corporate General Manager*

## PRESENTATION

**Cristina del Castillo García** - *Fluidra, S.A. - Director of Investor and Shareholders Relations*

My name is Cristina del Castillo, Director of Investor Relations and shareholders of Fluidra. Today's presentation, and as is normal, will be made by Mr. Eloi Planes, the Executive Chairman; and Mr. Xavier Tintore, the Corporate General Manager. You will be able to follow this through your devices. And in case you want to ask a question, you should send your questions through a chat link that appears in the bottom of your screens.

You can send from now on all of your questions and thus, we'll be able to manage them, and we will answer them as soon as the speakers end their presentations. All of the documents will be available in our web page, [fluidra.com](http://fluidra.com), under the Shareholders and Investors link under the public -- periodical public information. It is also being sent this morning to the stock exchange authority. This multi-conference will be available in our web page from this afternoon on.

Let's start the presentation. Mr. Eloi Planes has the floor.

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**Eloi Planes Corts** - *Fluidra, S.A. - Chairman, CEO & Executive President*

Thank you, Christina. Good morning, and welcome to Fluidra's Results Presentation for the First Quarter of 2018. The first quarter's figures must be analyzed with a certain perspective because we're starting the campaign in the northern hemisphere.

The sales in March, April and May depending on the weather and is, for me, actually, be advanced or delayed. As you can observe on Page 3, this quarter's figures are -- have been -- have had the strong impact of the currency's evolution. Additionally, the cold weather in the global Northern Hemisphere has delayed the start of the campaign, especially in Northern Europe.

The fact is that the general dynamics of market is a very positive one. Customers keep a good drive, and the campaign's prospects are very, very good. In fact, the provisional figures we have for April show this trend. During our presentation, we will dwell on some greater details.

The sales in March of EUR 181 million, which implies a growth of 2.1% under constant currency perimeter. As we explain further down, the Southern European markets show a growth rate of 8% under a constant perimeter. It is the currency impact together with the evolution of markets in Northern Europe and the strong implementation of projects in Asia, which shows -- well, the reason why we show a decrease of 1.2% in sales.

The provisional sales figures, which -- we have all this. The month of April show growth rate above 8%, and we see that all European markets are behaving with consistent growth rates. As I was mentioning, the market's drive is a very positive one and we see no structural changes.

Given the evolution of the markets in the South of Europe both in March and April and the figures in April in all geographies, we foresee a very good campaign. Our expectations are still well aligned with the guidance we shared with all of you last February.

Bearing in mind the moment that the company is going through in the implementation of our merger with Zodiac, we think that for greater transparency and to help us understand the real evolution of the businesses, we must give you information about the recurrent results, excluding income or extraordinary costs that are basically related to the capital gain due to the sale of ATH in the figures for 2017 and any expenses associated to the merger process with Zodiac in 2018. The good evolution of our gross margin, as you will see later, and the good control of the expense had allowed us that in spite of a small decrease in sales, the results have been kept.



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As you can see on Page #3, the recurrent -- the company's recurrent EBITDA is EUR 18.4 million. And the recurrent net result has reached EUR 4.6 million, which implies a growth rate of more than 40% compared to the same period last year.

The net financial debt has been kept at EUR 212.6 million, and the net working capital shows our stock investment waiting for a campaign that we expect to show a growth rate of between 5% and 7%. A good management during this quarter both in terms of margins and expenses locators will place us in a good position to look ahead because they assure a good evolution of the results as the volumes will be recovered.

Before giving the floor to Xavier, who will get into greater detail in the analysis of the results, I'd like to talk to you about where we find ourselves with regards to the merger with Zodiac, which we announced last 3rd of November. It is a unique operation from a strategic and a rational -- and industrial rational point of view. The complementarity of the businesses of both companies in terms of geographic coverage, product and brand portfolio is truly exceptional. The market structure of the dynamics at both companies are gaining market share, and the synergies analysis allowed us to share with the market some expectations for 2020 that we expect in the next few months.

We expect annual growth rates at a constant currency of between [7% and 10%] with an improvement in the EBITDA profitability that should place the combined company at about 21%. We're looking at the debt below twice EBITDA in 2020.

The merger process continues, and we expect, as we announced, to close the operation before the end of the first half year. This said, we have been taking some steps. In February, the extraordinary Shareholders' Meeting approved the merger. And at the same time, the rating agencies, Standard & Poor's and Moody's, gave us a B, BB and Ba3 rating, respectively.

In March, we refinanced the debt for the new company, taking advantage of the good market conditions. And as of today, we have already obtained the approval by the competition authorities in different constituencies, and we are on the way to having the approval of the operation in the rest.

From an operational point of view, we had set up different task forces who work nonstop for the integration of both companies and in the planning of the synergies capture, both in terms of sales and costs. As I've mentioned, both in terms of goals and in terms of timing for the operation's closing, everything is running as planned. And our expectations, as we already shared with you, is that we will carry out the operation's closing during the second quarter.

The merger with Zodiac sets before and after in our company. Throughout our history, we have worked in a constant way to turn Fluidra into the global leader in the pool industry. And this operation places us as a point of reference in all world markets. And it turns us into a larger company, a more efficient one and a more profitable one. This is our commitment with the company, with our shareholders and with our clients.

And now I'm going to give the floor to Xavier Tintore, who will explain in greater detail all of the data about the first quarter 2018.

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### **Xavier Tintore** - Fluidra, S.A. - Corporate General Manager

Thank you, Eloi. Next, I'm going to give you a detailed explanation about the first quarter's results. And as is traditional, I will show you the organic and total data for many items. We will exclude 2 months from the activity at ATH, the divestiture we carried out in the first quarter of 2017 and the Piscine Laghetto activity, the aboveground pool manufacturer from Italy, which we acquired in July last year and some other small acquisitions.

And as Eloi has just mentioned, from now on, we will separate the expenses associated to the Zodiac operation in order to ease your understanding of our company's recurrent business.

Let's now analyze on Page #5 the evolution of the main lines in our P&L account. The sales figure decreased by 1.2%. And if we exclude foreign currency, it would imply a decrease of 2.3%. And if we adjusted it according to foreign currency and perimeter change, it would be 2.1% given that the business volume of the acquisitions and divestitures are practically compensated.



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The lower growth rate is explained by a certain delay in the start of the campaign associated to a colder and rainy weather compared to the previous year and also the change in Easter days from the second to the first quarter in 2018. So from that point of view and as a point of reference, the annual sales growth rate in 2018 compared to 2016, both had Easter during the first quarter, is up 7.5%.

The gross margin reached 52.6%, and it is 90 basis points above the previous financial year. And we would like to highlight 2 positive factors: The first one is the sales price management, and the second one is the mix associated to our lower sales volume for commercial pool projects in Southeast Asia. These 2 positive factors have more than compensated for the increase in raw materials and commodities.

The operational expenses before provisions and amortizations have reached EUR 76.6 million with a growth rate of 1.7%. This item excludes the expenses and nonrecurrent income associated to Zodiac during that financial year. Given the significant amount of this type of expenses and also the recurrency in time, we have included in this slide an item that break downs this data in order to ease both the understanding of the business evolution without these factors as well as a follow-up of these nonrecurrent expenses, which, as you will remember, include both the ones needed to close the transaction with Zodiac and those needed to capture the EUR 35 million in terms of synergies.

During the quarter, these expenses reached EUR 2.7 million. And in 2017, this item just reflects the capital gain associated to the divestiture at ATH for EUR 1.2 million. Now provision for bad debt reached EUR 0.3 million, with reductions in Australia and Europe mainly.

EBITDA has been kept constant at EUR 18.4 million in spite of a lower sales volume, thanks to the improvement in our margin and provisions as well as our control of the OpEx. The financial result is basically the same one. And the tax rate reached 35% during the quarter, slightly above the one in the previous year given the mix of results according to different countries.

The recurrent net result has reached EUR 4.6 million, EUR 1.3 million above the previous year. And this implies more than a 40% increase, thanks to a lower volume of depreciation and a lower impact of the minorities.

At the end of the page, we have included information about EBITDA and the reported net result in order to ease the, well, reconciliation with the financial statements. On Page # 6, you can observe the sales evolution by geographic area. Spain continues with a good trend, just like the previous year, with a growth rate at constant perimeter of 7.4%.

The South of Europe keeps on advancing favorably with a growth rate of 12.6%. And about 5 points are due to the change -- perimeter change due to Laghetto mainly, and the rest is a good organic evolution with important raises in Portugal and Italy mainly.

The North and Center of Europe have a decrease of sales of 4.8%, which, under constant currency and perimeter, is minus 3.9%, a situation caused by the late start of the campaign associated to the bad weather and to the Easter holiday's date.

Eastern Europe grows by 8.5% under constant currency, thanks to the good performance of Bulgaria and the Czech Republic mainly.

On the other hand, the evolution of Asia and Australia had a strong impact because of the foreign currency given that under constant currency, this -- the decrease is up 3.4%. This reduction is due to the impact in projects of commercial pool carried out in 2017, which are not being fully compensated by new installations in this first quarter. Australia, on the other hand, has kept its good growth rate in residential pools.

Finally, the rest of the world has also been highly influenced by foreign currencies with a fall of 1.4% due to the late start, the late start of the campaign in the U.S.A., which has not been compensated by the excellent evolution of our business in Latin America.

On Page # 7, we show the evolution of the different group's business units. The evolution of residential pools and fluid handling shows the late start of the campaign in some geographies, as we have seen in the previous page. Commercial pool decreased slightly due to the impact of the large project of Asian Games in Indonesia, Summer University in Taipei and the fountains in Eastern Europe carried out in the first quarter of 2017, which have not been compensated fully.

Water treatment shows a growth rate close to 5%, above -- well, above all, thanks to the good performance of disinfection equipment.



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Irrigation and water treatment. Domestic water treatment, reflects the impact of a divestiture at ATH, which explains a large part of the decrease.

On Page # 8, we show the evolution of the group's working capital. The net working capital reached EUR 263 million. Given that there are many effects that have had an impact on the closing figure, we have calculated the adjusted net working capital. Basically, it reflects the equal perimeter associated to the purchase and sale of companies and also the existence of earnouts, whose -- which are short term with -- for an amount of about EUR 5 million. The net working capital adjusted for all of these factors reached EUR 266.6 million, with a growth rate of 4.1%, mainly due to the growth in the stocks figure for the start of the campaign.

The following page, Page # 9, shows the evolution of the net financial debt and the free cash flow. As you know, the first quarter is a quarter in which we invest. It's an investment quarter to prepare the campaign. The figures during this period are very similar to the previous financial year. The use of cash before acquisitions is equal to EUR 55.8 million with a lower effect on the P&L account as a result of the nonrecurring expenses associated to the Zodiac operation.

Acquisitions and divestitures reflect the payment of the SIBO per earnout and the purchase of some minority partners in group subsidiaries. The net financial debt is equal to EUR 212.6 million or exactly the same amount as in the previous year.

Then without any further ado, I'm going to give back the floor to our Executive Chairman, Mr. Eloi Planes, to end this presentation of results

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**Eloi Planes Cortes** - Fluidra, S.A. - Chairman, CEO & Executive President

Thank you, Xavier. As I was telling you at the beginning my presentation, the general dynamics of the markets is a very positive one. Our clients keep their good muscle tone, and the campaign prospects are truly very good. In fact, the provisional figures we have for April show this tendency.

The good evolution of the gross margin and the good control of ordinary expenses at this quarter make us foresee a very good campaign with very good results. As you know, so far, until the closing of the merger, we cannot share a joint guidance.

If we look strictly at Fluidra's perimeter, we see that Europe shows a lot of structural solidity, just like Australia and Latin America. Given these dynamics, we reinforce our expectations for Fluidra's perimeter that implies a sales growth of between 5% and 7% for 2018 as we shared with you last February.

2018 is focused on implementation of Fluidra and Zodiac's merger. So far, we have closed the process of refinancing the new Fluidra. We have obtained from the competition authorities in different constituencies, and we are on the way to having the approval of the operation in the rest. Everything is running as planned, and we foresee to carry out the closing at the end this quarter.

In the meantime, our teams keep on making headway in the integration plan and the planning for the capturing of synergies in sales and costs.

After these very intense months of hard work and finally, we would like to repeat that the prospect midterm are still well aligned with the forecast we shared with you when we announced the merger operation last November. This merger operation placed us as a point of reference in all world markets and turns us into a large, more efficient and more profitable company. This is our commitment with the company, with our shareholders and with our customers.

The only thing I have left to do is to thank you for your participation in this multi-conference. And we will be delighted -- both Xavier and myself will be delighted to answer any questions you may have for us. Thank you very much.

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**Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

Thank you very much, Eloi and Xavier, for your presentation. And now we will start the Q&A with all of the questions that have been received so far. (Operator Instructions)

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## QUESTIONS AND ANSWERS

**Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

First question sent by Mr. [Mohammed Salah] from [Salah Roma]. And he asks, have you foreseen approving a new strategic plan? And if so, when?

**Xavier Tintore** - Fluidra, S.A. - Corporate General Manager

Thank you. Thank you for your question, Mohammed. We -- as Eloi has said, we are working on the closing of the operation during this second quarter. And part of the work implies also the preparation of a new strategic plan for the company, which we expect to be able to share with the market during the fourth quarter this year when we come back from our summer holidays. We still haven't got the exact dates. But once we have planned it, we will share it immediately with the market.

**Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

Thank you. The next question is asked by [Leone] (inaudible) from (inaudible). How is April? Could you tell us how are sales growing? Do we notice any compensation for the delay in the start of the campaign in the Northern Hemisphere during the first quarter?

**Xavier Tintore** - Fluidra, S.A. - Corporate General Manager

Thank you, [Leone], for your question. Well, Eloi mentioned during his presentation that we expect a growth rate of about 8% this month of April. In fact, April is not yet over. And as you know, we do not make any comments about results that are specific to a month. What we've done is to anticipate this piece of data in order to give you a flavor, to give you a vision about the fact that the dynamics within the markets is a very good one and is very much consistent with the dynamics we saw in the second quarter of 2017. And we're seeing this both in the North and in the South of Europe. And in general, in all of the markets in which we work.

**Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

Thank you. The next question has been sent by Francisco Ruiz from Exane. Francisco has 3 questions for you. The first one, could you give us a detail of the profits before taxes and the taxes and the minorities? Second question, you announced the new financing. Could you give us greater details about the costs? Is it subject to the closing of the operation? And the third question by Paco is, could you give us greater details about the evolution of Zodiac this quarter? And how many nonrecurring expenses have you recognized between you and them?

**Xavier Tintore** - Fluidra, S.A. - Corporate General Manager

Okay. Paco, let me start with the last question. We cannot make any comments about Zodiac's results, as Eloi has mentioned, because we are in the very midst of the antitrust process. And we have to keep a strict separation between the -- each company's operations. And the fact is, we can only work on what would be the planning of the activities needed to operate a company jointly once we have the approval by the competition authorities. Of course, they are working in some of the markets in which we're present. And well, they see the same market trends that we have. Now with regards to the financing details, I can actually give you some greater details. In fact, the financing process we ended in March was very, very good for the company, very satisfactory, with a demand that was significantly higher than the value of the debt we wanted to raise, which truly allowed us to improve and adjust the conditions in all of the segments of debt -- in all of the debt that we raised in the market. Now if I share with you the structure, which is very similar to the one we announced, it is a debt structure that has a term loan B of about EUR 850 million in multicurrency and about EUR 400 million, about USD 500 million and AUD 75 million. 7 years. And basically, we have been able to raise that with a margin and that's a bit below the one we had shared with you. In the case of the euro, it's of about 275 points. And in the case of the dollar, it's of about 225 points. And the Australian dollar is -- it is a bit higher. It's of about 375. Additionally to this, we have raised a revolving line of about



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EUR 130 million to finance our working capital needs in Europe and an ABL to finance our working capital needs in the Anglo-Saxon world for about \$230 million. Now with all of the things -- with all of this I'm sharing with you, basically, the average cost of the combined company would be of about 4%, bearing in mind where the rates are today. And finally, you asked me to share with you a breakdown of the minorities and the taxes. This -- what would be easiest is that we send you these in writing instead of starting to quote figures here. But basically, we have a possibly EUR 1.5 million of corporate tax, EUR 0.1 million of minorities. In order to get to the net income result after extraordinary, the last line would be EUR 2.6 million. To -- I insist, if you want a full breakdown, we can send them -- we can send that to you in writing.

**Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

Okay, thank you. The next question has been sent by the [Bruno Silva] from Caixa Bank-BPI. [Bruno] asked 5 questions. The first one, the guidance of 5% to 7% in sales increase includes the currency impact. What's the currency impact that you calculate for 2018? The second question, the gross margin has evolved very positively, but the OpEx -- the sales OpEx has been -- has increased. Why? With the expected recovery of sales in the next quarters, do -- should we expect a reduction of OpEx over sales due to the company's leverage? Third question, the recurrent EBITDA in 2018 should keep on being increased at a pace which should be twice as much as the sales. What's your calculation estimate with the merger in 2018? Fourth question, stocks have been raised above sales as opposed to what happened during the first quarter of 2017. I imagine that this is related to the start of a worst year in 2018. Should we see a normalization of this in the next quarters? Do you expect to generate cash to withdraw on a stand-alone basis? And the last question with regards to the merger, what type of synergies do you believe you'll be able to materialize already in 2018?

**Xavier Tintore** - Fluidra, S.A. - Corporate General Manager

Okay, [Bruno], let me answer your questions one by one. Thank you for asking that. Okay. The guidance that we shared with you, yes, we did say 5% to 7%. As we said in our communication of results last February, which is when we said that, it included an estimate of currency evolution. I mean, that was currency net, and we thought that the dollar would be at about \$1.2, okay? So we keep that guidance because the variations have not really been significant. But at any rate, I mean, in principle, they have been built up on the basis of that foreign currency scenario. And depending on what will happen throughout the year with foreign currencies, we'll adjust that and we'll share that piece of data with you. At any rate, we're always giving you both the evolution of -- in constant currency terms and in real terms. I mean, you can understand what's the growth fundamentals that the equation has. Now the gross margins, as you mentioned, have been increased in a significant way, thanks to the sales price management and thanks to the mix improvement due to the lower weight of projects in Southeast Asia. OpEx over sales has been increased. But basically, that increase is related to the late start of the campaign. In other words, we are getting ready for a campaign with growth rates of 5% to 7%. And therefore, our investment and the infrastructure we have is ready for that. Clearly, the leverage, the operational gearing, as soon we recover the volumes, I mean, everything seems to point out that we will recover them, as we have shared with you. You know the piece of data about April. I mean, that percentage of OpEx will improve at the same time as the company's EBITDA will also be increased. Fluidra, as you well know, is a company that has an operational gearing that's quite significant, as we have shown in the last 3 years. And this does not -- should not change during this financial year. Now with regards to the costs of the merger, you should remember that what we shared with the market last November was that we had 2 types of costs. On the one hand, we had the costs of the transaction itself, which we estimated at about EUR 40 million to EUR 45 million. And part of those costs had to be paid by Zodiac before the merger, and another part would be paid by Fluidra. And a final part would actually -- would come once the company has been fully merged. Now we could commit ourselves -- the moment we have a capacity to speak out and to clarify the operations from both companies, we'll give you the breakdown of those EUR 40 million to EUR 45 million between both companies. But we're still within the range of transaction costs of somewhere between EUR 40 million and EUR 45 million. On the other hand, there is a second chapter, which are the costs necessary to obtaining the synergies. Remember that we had talked about EUR 35 million in terms of synergies during the first 3 years of the operation. In order to get this EUR 35 million of synergies, there were nonrecurring costs of EUR 30 million. And these, for the most part, will come once the company has been fully merged for the most part, and that will fall in 2018. Most of them in 2019, and a little part of it in 2020. That's what we shared with you in November. What we said in November was that the figures for 2018 could probably be 10%. Most -- more than half will fall in 2019, and the rest in 2020. Now your fifth question is related to the volume of stocks that the company holds, which is a little bit above -- it's a bit 4% above the growth sales -- the growth of sales. As you have mentioned, I mean, this is related to the fact that the campaign started a little bit late compared to what we had foreseen. But the stocks volumes are well aligned with what we have been doing throughout the last years. I mean, this is just a specific detail about getting ready for the campaign. And Fluidra, on a stand-alone basis, I mean, the company's recurrent business generates a cash flow, as it has been the case in the last few years, of somewhere between EUR 25 million and





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EUR 35 million in a natural organic way. And your last question is related to the synergies. Out of this EUR 35 million, which part will be -- which will occur in 2018? Well, once again, I have to talk about the presentation of results once the company's fully merged. But what we said is that bearing in mind that the merger was taking place during the second quarter, which is a quarter of campaign, this year, we'll not be able to reflect an enormous amount of synergies. The figure would be of about -- the 10% I mentioned beforehand for the costs. So that will be more or less the range, but let's wait until we have an exact date for the closing of the operation to know exactly what's the commitment for 2018.

**Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

Thank you. Now we have different questions about the sales figure in April. So let's group them altogether. Now with regards to April, 8% of -- the 8% growth you mentioned, is that a percentage that can be considered to be a comfortable one? Bearing in mind the impact of Easter, that 8%, has it been calculated under constant currency terms? And if we had a consolidated data -- piece of data about the 4 first months of the year, which would be the real growth in sales?

**Xavier Tintore** - Fluidra, S.A. - Corporate General Manager

Well, I've mentioned that clearly. It is not part of the company's policy to talk about the evolution of a specific individual month. We have highlighted April this quarter just to give you enough perspective that the campaign's evolution is a good one, that the market's dynamics are good. And we have shared with you a piece of data that -- I mean, if you look at the first quarter, with the impact of the Easter holidays, in 2016, the annual composed growth based on 2016 is of 7.5%. So what is this telling us? This is telling us that the first quarter of the previous quarter was a quarter with a relevant impact. The fact is that we have had a couple of weeks of good weather and that the initial campaign, the dynamics when we talk to customers in Spain, France and Italy, it's a very positive dynamics, well aligned with what we have actually observed in the market during the last years and during the last quarter. So for us, that 8% is a very good piece of data. It's a very good indicator. And we want to say that the year's guidance will be between 5% and 7% that we have shared with you throughout this presentation.

**Cristina del Castillo García** - Fluidra, S.A. - Director of Investor and Shareholders Relations

So those are all of the questions we have received. We thank all of our speakers, Eloi and Xavier. Thank you all for participating. And as usual, you know that the Investors Relations department will be delighted to answer any of your questions.

Thank you very much, and have a very good day.

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