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CAR - Avis Budget Group Inc at JPMorgan Gaming, Lodging, Restaurant & Leisure Management Access Forum

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PRESENTATION

Kevin Milota - *JPMorgan - Analyst*

Okay, good morning, everyone. Just as a reminder, this is going to be webcast for everyone that is not here. But we are happy to have Larry De Shon, the CEO of Avis Budget Group; here in the front, Neal Goldner, IR extraordinaire, who is always helpful.

So just going to start off kind of wide-ranging -- you guys know the drill. So fireside chat, so feel free to participate as you see fit.

But maybe to kick it off, Larry, you now have been with the Company for a while, in the CEO seat here for the last few months. Maybe kind of give us your latest and greatest, and what you think are the key attributes of the Avis story as we look through 2016?

Larry De Shon - *Avis Budget Group, Inc. - CEO and COO*

Yes, thanks, Kevin. Hello, everyone; good morning. So, yes, I've been back a couple months, 2 1/2 months, from Europe and just been working with the team on where we see the opportunities going forward. And I think it's a pretty exciting time for us, a pretty exciting time for the industry.

We've got some short-term challenges that I will talk about in just a second that we're working on, but we see a lot of opportunity in the near term as well as in the long term of how we can kind of really reshape the business. And that really means leveraging technology.

As an industry, although we've had innovation in the industry over years, we still do a lot of things the same way we've been doing them for decades. And I think technology has really matured to the point that it can really enable us to take a look at how we conduct our business, how we serve our customers, in a way that leveraging technology can allow us to actually reduce our costs; provide a better service; and, overall, grow our profit margins.

So we've been working on: what are those initiatives in the short-term, as well as what are those initiatives in the long-term, that we should be looking at to really invest in the right technology at the right place to make sure that we can continue to grow our profit margins going forward? So we've charted a course, as we turn into 2016 and into 2017, where we are taking a look at some things that we can control inside our business -- areas that we believe that, with the right focus, with the right technology, and actually the right resources inside the organization to really focus in key areas where we spend a lot of money -- but we believe that we can actually have a greater deal of oversight, focus, and more granular metrics at the location level that can help us reduce our costs.

So I'll give you two examples. The first one is shuttling. We move a lot of cars. We move cars all day long, lots of locations. We move them on airport from brand to brand; we move them to service facilities; we move them from airports to local market stores, and local market stores to local market stores. But we do that without really any -- no technology today to really support that.

So when you take a look at over \$200 million a year in the US that we spend just moving cars, by adding some technology; adding someone sitting over the -- kind of a team sitting over the top of shuttling, and their full-time job is to make sure that we are shuttling in the most efficient possible way we can for the highest profit rental transactions we can; and by providing this technology that allows us to know the efficiencies of our shuttle drivers, the routes they're taking, how we can reschedule them on the go -- we think we can actually reduce our shuttling cost per transaction over time. So this is technology we're currently testing. We've hired someone to sit over the top of that cost line with new data analytics team, really



tearing apart every shuttle move we make. And was it the right move, to the right place, with the right car, for the right transaction, for the most profit? So that's one example.

A second example would be manpower planning. So we spend \$750 million a year on US manpower. And there's lots of levers you can pull inside the manpower world to really drive the most efficient manpower plans that you can.

But we've not had the technology to really support the locations to do that, nor did we actually have someone sitting over the top of it with data analytics, once again, to make sure that we are producing the best manpower plans that we possibly can across every single location every month. We left it up to our airport managers, who have a lot to do in their day. So we believe that we can actually drive more efficient manpower plans, cross-utilize our folks more, do a better balance of part-time/full-time mix, better shift patterns day off -- you know, day-of-week shift patterns, vacation bidding schedules, and so forth, and drive efficiency and productivity in manpower.

Once again, a \$750 million spend -- so you don't have to improve it a lot when you start actually seeing real benefits on the bottom line. So those are a couple of examples that we're -- in the near term we believe that we can start providing some real benefits.

And then as you look at the long-term, things like self-service, where we are actually putting the transaction in the hands of the consumer, from reservation all the way through the whole rental process on their mobile app; where they can transact completely seamlessly at their time, at their speed, and be able to have selection of car and be able to transact through the app -- all the way through the whole rental process, all the way through the return.

So that is something that we're testing now. We've got several thousand cars automated with the technology. We are testing several different types of technologies over time, both here and in Europe. And we've got several dozen customers also in the test.

So this is something that we are learning every day, our locations learning every day. But over time, as we start moving more and more of our transactions that way, then that is also a great experience for the customer and allows us to reduce a lot of cost in the operation as well. So these are some examples that we're taking a look at -- how we can actually improve the business grow profit margins.

We've got, you know, a few short-term challenges. I would say first quarter is one of them. So we talked about -- on our earnings call about the fourth quarter being difficult for more price perspective, and then we said that was turning the corner into the first quarter as well. And I think there's a couple of dynamics going on that made this first quarter more challenging around price than what a first quarter normally would be.

Whenever you come out of Christmas, the industry has lots of fleet, because after Christmas volume really drops down. People are trying to get out of their fleet. January and February is not a great month to sell cars in, so a lot of -- if you are heavily risk -- fleeted, you're going to really try to put those cars into the market more into the spring, when you can get better values for them.

So what happened this year that made it different? We saw some weaknesses in areas I don't think the industry expected. Number one, commercial volume continued to be weak, as we talked about on our fourth-quarter earnings call. And as we turned the year, that continued into the first quarter.

Florida did not have the volume we had anticipated this year. It saw a decline in inbound traffic from Canada and Latin America. As the dollar has strengthened against those currencies, I think that did put pressure on people coming into Florida for the season. So Florida volumes just didn't materialize like we had hoped.

And then I think insurance replacement also was down, as the winter events this year versus last year just did not materialize to the same degree. So insurance replacement was down. So if you add those three things together, that created more fleet coming into January and February than what I think you would normally see in our industry, even though normal January and February has got a lot of fleet.

We saw auctions in the beginning of the year that had significant increases of cars coming into them year-over-year. So that has continued to put more pressure on pricing than what we would normally see in a first quarter of this year. But the good news is that those cars on the auction -- they



do finally get flushed out. And we're seeing an uptick right now of cars being sold -- our cars being sold at the auctions, which is a good sign. We are heading into spring; that would be normal. Even though they had an abundance of cars in January and February, we are starting to work through them. And over time that will kind of, I think, more normalize.

So as we go into the second quarter, I'm sure pricing will continue to be challenged; but then as you go through the year, pricing should continue to improve. So we guided to flat pricing, which assumes pricing down in the first half, if you will, and then improvement in pricing as you go through the year as we go through.

And I think as you look at fleet costs being up this year, and normally you always the price improve with fleet costs going up -- but there is a lag to that. And so I think the combination of the lag as well as the abundance of fleet in the first quarter, as that all starts to work together, and as the fleet kind of works its way down, and the whole industry gets tightened up, then I think that you'll start to see price improvement in the back half.

Kevin Milota - JPMorgan - Analyst

You know, given some of the -- one of your key publicly traded competitor talking about capacity declines this year, our belief is that you grow capacity. You know, one, is there an opportunity to take market share? Or secondly, is there a risk, as we go into the second and third quarter, that -- given what we've experienced so far in the first quarter -- that we are in a position where the industry is over-fleeted? So maybe kind of walk us through your thoughts on both of those dynamics?

Larry De Shon - Avis Budget Group, Inc. - CEO and COO

Yes. What we focus on -- what we focus all of our locations on, our revenue management team, our fleet team -- we focus on growing profitably. Yes, we look at market share, but our key focus is to grow volume profitably. And our key focus is also to improve our utilization. So we put fleet out below our expected volume so that we can improve utilization. We improved utilization last year a point. We've improved utilization in January and in February.

Now we have a balance of risk cars and buyback cars. So we were able to get out of cars in December, January, February, because we could turn them back. If you are more oriented towards risk, you may not have that same opportunity. And if you can't sell them, because it's not a good time to sell them, then you've either got them in your fleet or you've got them grounded somewhere. So we improved our utilization in January and February, because we continued to manage our fleet very tight to the demand. And that's we'll continue to do going forward.

You know, we want to grow our volumes, but we want to improve our utilization at the same time. So we keep that very, very tight. And also our demand fleet pricing system that we've been investing in allows us to kind of have a more granular look at that. And we'll continue to do that.

Kevin Milota - JPMorgan - Analyst

Okay. Just kind of moving into looking at your different segments: obviously, commercial -- we've seen some weakness here in the first quarter. If you peel back the onion, is there any kind of customer or client mix that was more concerning to you? And then, secondly, on the leisure side, give us an update on what you're seeing for leisure customers and their appetite to use your product?

Larry De Shon - Avis Budget Group, Inc. - CEO and COO

Sure. No question, the oil and energy companies have been down significantly. And we had a lot of oil companies in our corporate mix, both in the US and in Canada. And you can see that in the airports that really matter for the oil business. So if you look at Houston, and other airports in Canada, and so forth, you see that there's a big drop in volume in those locations. So it all fits together.



But there was some softness in other areas as well, not just the oil and energy industry. And as we talked to our corporate accounts, as we do all the time, I think there was just a conservatism in many accounts about kind of ending the year and going into the first year -- kind of concerns around macroeconomic conditions and just scaling back a little bit on travel. So how long that will last, I don't know. But it did impact our overall commercial volumes. But we saw a much bigger impact in Canada as well as overall in the oil and gas -- oil and energy industry.

Leisure has been stronger, though. And we have signed a lot of leisure partnerships last year, and we continued to expand those partnerships as the year went on. So we believe that we'll continue to see growth on the leisure side, and that's an exciting opportunity for us and our airline partnerships, for example.

Kevin Milota - *JPMorgan - Analyst*

As it relates to competition and nontraditional competition with ridesharing, maybe you could give us your kind of lay of the land and how competitive you think the business is right now. One, with Hertz and Enterprise; but then, two, how ridesharing and that begins to play more in your core business.

Larry De Shon - *Avis Budget Group, Inc. - CEO and COO*

Yes. Well, the business is competitive and will always be competitive. I don't think -- it's been like that for the 10 years I've been here. I don't think that's going to change.

But I do believe that as we move through the year -- and we're already starting to see some fleet tighten up. As we look across the United States, we are seeing pockets of that happen, which is normal for this time of year as we head towards Easter; and then after Easter, as we kind of -- you know, the first couple of weeks of April, we'll be normally down. And then we'll start working our way into the late spring and into summer. And we'll start seeing improvements there, and so fleets will continue to tighten up.

And I think that that gives us an opportunity this year for the industry to get pricing. I think the environment will be different that will allow us to do that, where last year we had a lot of fleet, even right through the summer. So assuming we will not have a repeat of that, and so far we see that we probably won't have a repeat of that as we start to see fleets tighten up.

So I think -- but overall I think with the other two players, it will always stay very, very competitive in the business. But there's opportunities to continue to grow your rate. I mean, we are focused on the type of commercial business that we're taking. Are we leveraging our sales resources in the right areas to go after the highest-yielding commercial businesses that we possibly can? We think there's opportunities there.

We continue to grow ancillary revenue. It was up again in 2015. And we're continuing to pursue ways in which we can our ancillary revenue sales as well.

As it relates to ride-hailing competition, we spent a lot of time looking at the 2015 data. We took a look at the locations where ride-hailing is very, very popular, very large. We took a look at all those airport locations to see what was happening to our demand, and we saw them grow in concert with the rest of our growth that we had in 2015. So nothing stuck out there.

We took a look at one-day rentals, thinking that maybe that would be the type of business that would be more apt to switch from car rental over to car-hailing, kind of low-mileage, one-day rentals. It represented the same percent of our total transactions in 2015 as it did in 2014. No change.

We looked at all length of rental, no matter whether it was two-day, three-day, four-day, five-day. We looked at all of those at 50 miles or less, 75 miles or less, or 100 miles or less and saw no change year-over-year as a percent of the total transactions that they represented in 2015 to 2014.

And I think when you really, when you parse all the way through it, it makes sense. Our customers put on average 110 miles a day for a four-day trip. That's the average that we have. So 450 miles a transaction. The number of transactions that are actually one day or actually below 50 miles



is 3% or less of our total transactions, of our total volume. So it doesn't represent a huge amount of the business that would be the type of business that would make sense financially for someone to switch from rental car to car-hailing.

Our customers drive our cars. Our customers put over 2,000 miles a month on our cars. So you start taking look at a 450-mile transaction over four days, and you start thinking about, in the car-hailing terms, of \$3 or \$4 a mile, that's a real expensive -- that's \$180 a transaction for us. That translates to \$1,800 on the car-hailing side.

I just think that there is use cases that make sense for one, and there's use cases that make sense for us. We are not seeing the impact. We continue to look at it, but I actually see it as a positive. Because once again, if people can find more mobility solutions for all the use cases that they have, they are more apt to give up a second car or even their primary car if they know that.

For this, I can use car-hailing; for this, I can use Zipcar; for this, I can use Avis or Budget. That over time should send more demand across the different mobilities suppliers.

Kevin Milota - *JPMorgan - Analyst*

Thank you. Any questions from the crowd here? Or I could keep going.

Okay. Looking at -- just kind of thinking about price and how you can get pricing, what are you doing right now just in terms of car mix, if you're looking at more premium cars? You just had a relationship with Land Rover that was announced. Are there more efforts to bring higher price pointed cars into the mix, to have that help the pricing dynamic? Maybe talk through some of those issues.

Larry De Shon - *Avis Budget Group, Inc. - CEO and COO*

Yes, it's a really good question, Kevin, because we actually -- what we call our non-core, so those more higher-end car classes -- and we started this several years ago, really jumping into this area and taking a look at it. And we've been growing it kind of steadily year after year. We actually grew our non-core 10% last year.

And so that's an important part of our business. And we take a look at it by location, looking at the demand by location. We're looking at all the manufacturers and the different car makes and models that we can possibly put into that category and how we market it. I think that will continue to be an opportunity for us to continue to grow that. So our hope is that we'll just continue to build that base of vehicles, and that it will satisfy the demand that's for those types of cars.

We continue to expand into other makes and models, and we continue to expand it into more locations. We are taking a look at it in Europe as well. Although they had a lot of non-core already, we think there may be an opportunity to increase that as well in some of the countries.

So that is something that goes into the whole evaluation every year, is: how did we do on the non-core in the previous year? Do we think we rejected some demand?

You know, it's not a utilization play with that fleet. You know, utilization on non-core would be much lower. But the revenue per unit that you get per month more than -- well more than makes up for it. So we'll continue to look at those opportunities, to see how the mix of the fleet can continue to drive revenue for us.

Kevin Milota - *JPMorgan - Analyst*

Okay. In the back, yes?



Unidentified Audience Member

(inaudible - microphone inaccessible)

Larry De Shon - *Avis Budget Group, Inc. - CEO and COO*

Yes, I think our guidance was in line with what we were looking at. It was in line with what we saw in Q4 and what we were seeing as we looked at Q1. So our guidance reflected that, as well as the investments that we wanted to make in the business to be able to drive profit margins over time for the business. So I wouldn't say it was conservative; I would say it was what we saw, and that's how we got to the guidance.

Unidentified Audience Member

(inaudible - microphone inaccessible)

Larry De Shon - *Avis Budget Group, Inc. - CEO and COO*

I think it's the latter. I think a couple of things. I think that the fleet would be more conducive to support it. I think the second thing is we continue to expand our demand fleet pricing tool, which -- its job is to help us get higher-yielding rates, particularly when fleets are tight, and to help us improve utilization.

And we're now expanding into the second phase of that with the forecasting tool, which gives us better insight into forecasts of volume further out and down to customer segment, if you will. So that should start benefiting us as well.

And the third is: fleet costs are going up for everyone. And as I said, there's usually a lag, but over the years you can see that price improves with the fleet costs going up. So I think those three things together for us gives us an opportunity to get price as we go through the rest of this year.

Unidentified Audience Member

(inaudible - microphone inaccessible)

Larry De Shon - *Avis Budget Group, Inc. - CEO and COO*

Yes, it's a really good question. So as I think about the technology that we are testing for self-service, that same technology allows us to really, over time, look at how we are operationally running our business as well. We have thousands of processes that we use, from infleeting cars; to registering cars; to putting cars on rent; to cleaning, servicing, repairing, selling, turning back. There's hundreds and hundreds, if not thousands, of processes through that.

And we do it, a lot of them, manually with people trying to intercede and make decisions the best that they possibly can. With the technology that self-service provides, it gives us other information as well that can help us manage our fleet in a lot more efficient way -- so what we call the connected car piece, connecting the car to us and allowing us to see data back and forth that we wouldn't normally see on any given day.

Yes, we can collect more gas, because it's reading the actual gas burn down to 0.1 gallon. We don't see that today. We all know that there is customers that fill up 20 miles away from the airport, and they know that the needle is not going to move. And they're going to be fine, and they're going to say that they filled it up, and it's full. We eat that gas.

In the new world, we won't, because we'll know that exactly the gas down to 0.1 gallon, when they just took it out to when they return it. So when we test this technology, we see an improvement in gas collected, for example.



I use the example -- a couple of different examples to kind of highlight this. And there are literally hundreds and hundreds of them. But if you think about a rental sales agent assigning a car to a customer, she looks at a ready line on the computer, and she sees 10 cars that she can assign. She sees three of them are Malibus. So she says, how about a Malibu? Will that work for you? Yes, Malibu is fine.

But she doesn't know that actually there's a better Malibu than the one she assigned. So, for example, if this customer normally puts a lot of miles on in their transaction, we know that in our customer database -- we would not want to assign them a risk car. If it's a low utilization day, and you've got two program cars and a risk car that are Malibus sitting on the ready line, why not assign the program car? We don't need to put the risk car out and take miles on that car today.

Unfortunately, she doesn't know that. She's just looking at the ready line. A Malibu is a Malibu to her. To me there's always the most perfect car to assign to each customer out of all the cars that you could assign to the customer. Through this type of technology, this will allow us to see that and be able to optimize those assignments more.

Another example is a local market store calls up and says, I need four or five cars to meet my demand for tomorrow. And I'm going to keep this one for the rest of the week. Everybody wants to be helpful; we go out and find five cars. We send them to the local market store.

Well, one of those cars at the end of its life, and now we just sent it to a local market store. And that's where is going to die its life now is that a local market store, which means we now have to pay to shuttle it back to where was at the airport, which is where we turn it back. That car should have never gone at the end of its life to the local market store. But the people making those decisions don't know that. A system wouldn't know that.

So you start thinking about all these types of things, knowing exactly how long a car has been idle; where it's sitting idle; why is it there. There's lots of things that we can do to optimize continually the fleet we have at the moment to the demand we have at the moment, and get the right car to the right customer at the right time.

Kevin Milota - *JPMorgan - Analyst*

Yes, sir?

Unidentified Audience Member

(inaudible - microphone inaccessible)

Larry De Shon - *Avis Budget Group, Inc. - CEO and COO*

Yes, yes. So I would say that -- I'm sorry, I'm supposed to be repeating the question. So sorry. Way into it, sorry about that.

So the question was the technology it takes to actually be able to provide self-service connected car; and how long does that take; and is that developed inside the Company? Or is that something we would develop outside the Company over time? And just what's the execution like on that?

So we've been looking at connected -- we've been looking at self-service technologies since 2008, I think. And wasn't ripe for prime time yet. But now the technology has developed to the point that we're now starting to see multiple options in the industry that we can take a look at.

So from a self-service perspective, the actual technology in the car, to be able to provide this seamless service for the customer to be able to manage the transaction on their mobile app -- that is not something we're going to build. That is going to be something we're going to buy or lease. And we're talking to different providers now.



The ultimate will be the technology that comes in the car through the OEM. And there are some OEMs that are farther along with that development of that technology than others. So we're having to look at several different options: one that's OEM-built in the car, which is the ideal situation, because then we don't have to add anything to the car. But there are OEMs that are not ready for that yet; so then we have to by a third-party device that we can put into the car to do the same thing. But over time, we would hope more and more OEMs would provide it. So that's just kind of leasing, if you will, that technology.

The optimizer: when we get to connected car, to help us make our decisions smarter, to be able to lower our costs running things -- running the business and the operations. An optimizer is something that we would need to build. So what we do with the data that the car can give us? How do we take that data and optimize it at every turn of how we manage our fleet? All the way -- through all the process of its entire life with us, from infleeting until we finally sell it.

That is something we would need to develop, and I would suspect we would probably develop outside of the Company would probably be the direction we would go. And that's over the longer-term horizon. That's not something we're going to see in the near term. Yes, sir?

Unidentified Audience Member

(inaudible - microphone inaccessible)

Larry De Shon - Avis Budget Group, Inc. - CEO and COO

So the question is: where do we stand as far as adopting electric vehicles? And does it change the operating costs of the business over time?

And we've tested this already. We tested it in some of our New York airports several years ago, in fact. And we just could not get -- we tested it because we thought consumers want it, number one; and number two, we wanted to operationalize it so we could see the impacts of it. And we just couldn't get customers to rent them. They just didn't want anything to do with them.

The infrastructure is just not there yet for consumers to feel comfortable in a city that they don't know, to take a car that they don't know, and to take it out for the 450 miles of the four-day trip that they're going to drive, and feel comfortable that they're going to be able to get the charging where they need it, at the time they need it, in the time they need it.

Now, over time will that change? Sure. Of course, over time that will change, and we'll be ready to test it when it makes more sense. But we couldn't get consumers to use it. And as electric vehicles are expensive, we certainly couldn't get them to do it at a higher price.

So I think we are in a more wait-and-see mode here as it relates to electric vehicles. We'll be ready to step in and learn a lot more about how we do that when the demand is going to be there to actually support it. But we're not there yet.

Kevin Milota - JPMorgan - Analyst

I've got one on the balance sheet. Obviously, free cash flow is a part of your investment story here. \$450 million to \$500 million in free cash flow is in your guidance. Maybe talk about uses of those -- or free cash flow; how active the acquisition pipeline is right now; is it buyback? Is it internal investments? Where do you prioritize that cash?

Larry De Shon - Avis Budget Group, Inc. - CEO and COO

Yes, so we are guiding that we'll generate \$450 million to \$500 million of free cash flow again this year. That will be the fifth year, I think, in a row that we've done over \$450 million.

And we still focus in two areas for the free cash flow: we do look at tuck-in acquisitions. We'll continue to look at those where they make sense. I can say that we have a pipeline; that they are, for the most part, very small types of acquisitions. So when those make sense, we would do that. Otherwise the majority of our free cash flow will go to stock repurchase.

Kevin Milota - *JPMorgan - Analyst*

Okay. Yes, sir.

Unidentified Audience Member

(inaudible - microphone inaccessible)

Larry De Shon - *Avis Budget Group, Inc. - CEO and COO*

Yes, so the question is: what is incremental spend it takes for us to be able to get the technology that we are talking about advanced in the organization and operationalized? And there is an investment that we need to make in that, in both capital and also operating expense as well.

And that's reflected in our year -- guidance this year is that we're going to spend over \$100 million on the capital side on IT investments, ranging from continuing our demand fleet pricing, to modernizing our internal rental and reservations system, to be able to provide self-service, other types of technology going forward. And then there's also operations spend as well to support those initiatives to continue to grow those out. So whether we're putting new data analytics on top of how we look at our revenue, and how we really understand our revenue, and the mix of revenue that we take -- this is one of the areas that we are very focused in.

I think we're so focused on going forward in the next week, the next two weeks, the next four weeks on the revenue side and the pricing side, we don't spend enough time really taking a look at: how did we do? So how was the business we took? What did we like about it? What did we not like about it? Would we do it different again?

We've got lots of customer segments, lots of different distribution channels -- all at different costs of sales coming at us globally from all over the world. So how did that mix turn out in the end? And what would we want to change differently going forward? So we're putting someone over the top of that. We're going to put some technology over the top of that, so that we have better data analytics and more granular view more quickly, so that we can see with those opportunities are: the shuttling technology, the manpower planning technology. These are all investments we're making. But the purpose of making them is to be able to improve the efficiencies and grow profit margins over time.

Kevin Milota - *JPMorgan - Analyst*

Okay. I think that should do it for us. But thank you very much. Appreciate your time, Larry.

Larry De Shon - *Avis Budget Group, Inc. - CEO and COO*

Thank you.



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