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TOM2.AS - Q1 2014 TomTom NV Earnings Conference Call

EVENT DATE/TIME: APRIL 29, 2014 / 12:00PM GMT



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PRESENTATION

Operator

Ladies and gentlemen, welcome to TomTom's first quarter 2014 results analysts' call on April 29, 2014. (Operator Instructions)

I'll now hand the conference over to Bisera Grubestic, Investor Relations Officer. Please go ahead.

Bisera Grubestic - TomTom NV - IR Officer

Thank you, operator. Good afternoon and welcome to our conference call, during which we will discuss our operational highlights and financial results for the first quarter of 2014. With me today are Harold Goddjin, our CEO; and Marina Wyatt, our CFO.

This call is being broadcast live 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 Harbors apply.

We will start today's call with Harold, who will discuss the key operational developments, followed by a more detailed look at the quarterly financial results from Marina. We will then take your questions, and this call will finish at 2.45, CET.

With that, Harold, I would like to hand over to you.

Harold Goddjin - TomTom NV - CEO

Thank you, Bisera. Welcome, ladies and gentlemen, and thank you for joining us on today's earnings call.

We had a strong start to the year, and we are ahead of expectations and last year. Group revenue was EUR205 million, a 2% increase year on year, and gross margin was strong at 57%.

We delivered EBIT of EUR2 million, and adjusted earnings per share of EUR0.08 in the first quarter.

Marina will provide further information on the financial highlights later during this presentation. I will now discuss the key operational highlights per business unit.



We introduced a number of new products in our consumer business unit. The launch of the all-new TomTom Cardio watches went well, and we received favorable market reactions. The new models have a built-in heart rate monitor, which eliminates the need of using an uncomfortable chest strap.

Heart rate-based training is the single most accurate way to understand how the body is responding to exercise and, with this easy-to-use and accurate product, heart rate-based training becomes accessible to a much larger audience. We saw encouraging early order levels from customers, and the product started shipping last week.

We also introduced a TomTom MySports companion app, which wirelessly connects with our sports watches to upload key information, and also download the latest satellite position data, which gives our users an instant GPS fix.

We also announced TomTom BRIDGE, a programmable driver terminal that provides seamless integration of TomTom navigation and routing technology with customized business applications. This product is aimed at the B2B customers. TomTom BRIDGE offers the flexibility to create and tailor applications for specific business needs, and is available with different models that also include our WEBFLEET solution from Telematics.

Finally, following the successful rollout in Europe in 2013, we introduced the latest generation of PNDs in North America at the end of the first quarter, empowering drivers with an essential daily driving tool.

Moving on to our automotive business, we extended our longstanding partnership with Fiat to provide our maps and navigation software into the new Alfa Romeo MiTo model, and the entire family of the Fiat 500 models.

We also extended our traffic coverage geographically to China, Taiwan and Singapore. TomTom Traffic service is currently available in 36 countries, in North and South America, Europe, South Africa, Asia, Australia and New Zealand.

Within licensing, we entered into a strategic partnership with Micello, which is a worldwide indoor mapping leader. And we're adding indoor venues to our current range of mapping products. With this partnership, TomTom customers are now able to develop smarter applications and location-based services, helping users to navigate with ease, in and out of the car.

Let's move on to our maps. We're making good progress in finalizing our new real-time map making platform, which we expect to have substantially completed by the end of 2014. First pilots are being made available in our [ultimate RS change] format, and are currently being tested. In the new map-making world, we will combine professional map-making capabilities with cloud sourcing, and automated change detection and error correction, to deliver both freshness and quality at reduced cost.

Our maps will be updated continuously and distributed to enabled clients on an incremental basis. This will give drivers access to maps that are always up to date, whilst all advantages of having a map stored locally will be retained. We see this technology as critical to deliver on the requirements for highly automated driving, for which we have recently run a number of successful pilots with major German car OEMs. ...

At the same time, we continue to expand our map coverage globally. Currently, our navigable maps cover 42 million kilometers of roads in 116 countries.

I'll move on to our fleet management business. We accelerated growth in Telematics in the first quarter. The number of vehicles subscribed to our WEBFLEET platform increased by 38% year on year, and reached 348,000 by the end of first quarter.

Our solution offers significant added value to companies operating vehicle fleets, and deliver short payback periods, so customers who prove to be very loyal to us, and that is reflected in a very low churn rate of around 0.5% a month.

We further strengthened our product portfolio in Telematics with the launch of the LINK200. This is an entry-level tracking and trace device that can plug in directly to the vehicle's onboard diagnostic port, and that allows for self-installation by customers.

The LINK200 is offered on a rental basis, as part of the newly introduced WEBFLEET Lite subscription, and reflects Telematics' introduction of bundled hardware and software rental models.

Finally, I'm very pleased to say that Telematics today announced its second acquisition in Europe, with DAMS Tracking. DAMS Tracking is a leading fleet management service provider in France, and has 27,000 vehicles under management. With this acquisition, TomTom Telematics solidifies its clear number one position in Europe.

The industry dynamics for fleet management solutions continued to be favorable. The market is quite fragmented, and underpenetrated, and we will continue to pursue further expansion of our market leadership, both organically and through acquisition.

So this concludes my part of the presentation. I'm now handing over to Marina.

Marina Wyatt - TomTom NV - CFO

Thank you, Harold. Before I go through the numbers, I would like to highlight that we have updated our segment revenue reporting, as of the start of this year. We now report the hardware component of sales per automotive client in consumer, and not in automotive. With this update, we can clearly identify automotive revenue which comes from content and software, as our automotive segment.

I shall now begin a more detailed look at our quarterly financial results.

We generated revenue of EUR205 million in the first quarter, which was an increase of 2%, compared to Q1 last year. We saw growth from both Telematics and consumer. Telematics grew particularly strongly.

PND revenue increased year on year, because of market share gains in Europe, and because of higher ASPs. Our European market share for the quarter was estimated at around 52%, which was up by 2 percentage points, compared to Q1 2013. We estimate our North American market share for the first quarter at around 19%.

Sports revenue continued to develop strongly in the first quarter and we expect this to continue, fuelled, in part, by the contribution from new products.

Automotive revenue was flat, while licensing revenue was EUR4 million lower, compared to Q1 2013, which mainly resulted from the phasing out of a major contract in 2013.

In Telematics, the most important indicator of progress is the growth in the WEBFLEET installed base, and this increased by 38% year on year. Recurring subscription revenue grew by 35%. The acquired Spanish business, Coordina, contributed well.

Our gross margin increased by 1.3 percentage points, compared to Q1 2013, to 57%. 1 percentage point of the increase was due to the strengthening of the euro against the US dollar.

Total operating expenses for the quarter were EUR116 million, EUR4 million higher year on year. The increase came from higher R&D expenses, and also higher amortization of technology and databases, offset by lower marketing expenses.

EBIT for the quarter was EUR2 million.

Our net result was EUR7.5 million, of which EUR8.1 million related to an income tax gain that related to a positive outcome, following the finalization of an overseas tax audit.

Our results translated into adjusted earnings per share of EUR0.08 for the first quarter, of which EUR0.04 came from the tax gain.



We finished the first quarter with net cash of EUR44 million. We used EUR15 million in operating expenses -- in operating activities, and this was mainly driven by higher working capital utilization in Q1. Capital investments for the quarter were EUR24 million, and they largely related to investments in our new map production platform, the navigation engine, NavKit, and customer-specific automotive projects.

If we now look at the outlook. Given our first quarter results, and because of the one-off tax settlement, we're updating our full-year outlook for 2014. We now expect revenue of at least EUR900 million, and adjusted earnings per share of around EUR0.25, which includes the one-off tax settlement of EUR0.04 in the first quarter. Our previous guidance was for revenue of around EUR900 million, and adjusted earnings per share of around EUR0.20.

We also reiterate that we expect our gross margin to stay strong. We are keeping tight control on operating costs, and we expect capital investments of more than EUR100 million. We expect, overall for the year, to increase our net cash position.

Operator, we'd now like to start the Q&A session, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Alex Faure, Exane.

Alex Faure - Exane BNP Paribas - Analyst

I was just wondering if you could share with us some market data, if you have, on the sport watch market, how many units you're targeting for this year, market share you reckon you may have, and if you're seeing any major difference between the US and the European market? That would be very helpful. Thank you.

Harold Goddjin - TomTom NV - CEO

Yes. We don't have reliable market size numbers for this category that we're active in. This is the third year we are in the sports market; the first few years together in partnership with Nike, which is still ongoing, and we launched our own products last year under our own brand. For us, it is still an independent traded market for us. We think there is a lot of growth in this market. We are aiming at extending the size of the market as well, it's not just a -- the market is growing. We want to play an active role. It is for us still a -- it's not a big part of our revenue, also not in Q1, but we see good growth coming through in that segment. We nearly doubled our revenue this quarter.

We are establishing our credibility as a vendor in this market and there's still a lot of growth, we feel, available to us. We want to grow this into a meaningful sector and a meaningful contributor to our top-line growth.

I think that's where I'm going to stop at this stage. When we are further into development of the market we have further information, we will also give you more detail about the numbers, the volumes and our expectations, going forward, but it's still early days, I think.

Alex Faure - Exane BNP Paribas - Analyst

Sure. And just a quick follow-up, if I may? You mentioned the sports market; do you have any plans maybe, not for this year, obviously, but maybe later on, to broaden that out towards, let's say, more fitness application or just health monitoring, that sort of stuff?



Harold Goddjin - *TomTom NV - CEO*

Yes, it's an interesting marketplace. It's growing, it's extending both [originality] and people attracted to this market, generally more interest in health and good living and fitness. So this is an exciting area. There's a lot of competition as well, we recognize that, but we believe there will be ample opportunity for growth, going forward.

Alex Faure - *Exane BNP Paribas - Analyst*

Good. Thank you very much.

Operator

Hans Slob, Rabobank.

Hans Slob - *Rabobank Equity Research - Analyst*

On the tax, you said in the press release that your effective tax rate was close to zero, even excluding the tax gain. So what tax rate should we use as a normalized tax rate for 2014? That's my first question.

And secondly, the OpEx was up 3% in Q1. In the previous call, Marina, you said that OpEx would be lower in 2014. Should we still expect it, or will you spend more as the revenue environment has become a little bit more positive?

Marina Wyatt - *TomTom NV - CFO*

Okay, let's first of all, with the tax, yes, the underlying tax rate in Q1 was close to zero. Part of it is impacted by grants that we get towards our R&D personnel. So when you're -- but those seemed -- the first quarter is our smallest quarter so we get a disproportionately large benefit, if you like, in the first quarter from that. So I think, in terms of planning the underlying normalized tax rate for the year, you should look at somewhere around 10%.

Hans Slob - *Rabobank Equity Research - Analyst*

10%. I think previously you said 22% or something, so that's significantly down.

Marina Wyatt - *TomTom NV - CFO*

We've been in the teens. We were in the teens last year as an underlying rate and it is coming down. We continue to work on it, but around 10%.

Hans Slob - *Rabobank Equity Research - Analyst*

Okay, great.

Marina Wyatt - *TomTom NV - CFO*

Okay? And the second question was?



Hans Slob - Rabobank Equity Research - Analyst

On the OpEx, you said in the previous call that you would expect OpEx to be lower this year. It was at 3% in Q1, so what do you expect for the year?

Marina Wyatt - TomTom NV - CFO

Still expect it to be lower for the full year, compared with last year. So I'd stand by that.

Hans Slob - Rabobank Equity Research - Analyst

Okay. That's very clear. Thank you very much.

Operator

Johannes Schaller, Deutsche Bank.

Johannes Schaller - Deutsche Bank Research - Analyst

Maybe starting off with North America, I think you launched your new PND lineup here, but more a bit towards the end of the quarter. So just from that perspective, how should we be thinking about the trajectory here for Q2 and then the second half in terms of market share development and also ASPs? So basically, is there more a kind of positive contribution to come from the US in Q2?

And then also, just wondering from previous marketing campaigns you have run, you did a big one in Q4, how long you think that the positive impact, which clearly helped you in Q1, is going to last, and when you're currently thinking about the next big one potentially? Thank you.

Harold Goddjin - TomTom NV - CEO

Yes, so I don't think you should plan for material changes in market share or ASP in North America. Our aim is to -- our current market share is around 20%. We don't expect that will change materially over the year. Yes, we did spend quite a bit in marketing, while not excessive last year; there's another advertising campaign planned for the driving season which is June, July, end of May, June, July, but nothing out of the ordinary, I would say. So we're continuing at the levels that we have seen last year, in terms of advertising, and you will also see some activity around sports sector developing as well.

Marina Wyatt - TomTom NV - CFO

But if I can just add to that a little bit. Last year, our marketing spend was very low in Q1, Q2 and for most of Q3, and we saw a big ramp-up in Q4. This year, it's low again in Q1. It will increase somewhat in Q2 and Q3 but it won't be as dramatic as we saw between, if you like, the first part of the year and the last part of the year last year, so it's a little bit more phased over the quarters. So it will pick up in Q2, but not dramatically like it did in Q4 last year.

Johannes Schaller - Deutsche Bank Research - Analyst

That's very clear. Thank you very much.



Operator

(inaudible) UBS.

Unidentified Participant

A couple of questions. On the PND side first, if you could help us with the current inventory situation or any issues you are facing compared to the last year.

And the second one on the Telematics' side. What is the organic growth that you recorded in Q1? Thanks.

Harold Goddjin - TomTom NV - CEO

Sorry, I have to ask you to repeat the question. It seems to be a very bad line that we're on. Can you repeat the first question?

Unidentified Participant

Yes, so a couple of questions on the PND side. Could you help us with the current inventory situation or any issues you are facing there compared to the last year.

And on the Telematics' side, the organic growth you recorded in Q1.

Marina Wyatt - TomTom NV - CFO

Okay, let me just first of all talk -- we heard the first part of the question; the second part was harder. But on the inventory side in consumer, the channel inventory is in very good shape and is lean. And actually, one of the things that we have seen in the first quarter of 2014, compared with the first quarter of 2013, is that, in the first quarter of 2014, there has been less destocking, which is an indicator of leaner channel inventory and also a little bit more confidence in the PND market, so that's really what we've seen. But inventory in our own balance sheet is in good shape and inventory in the channel is in good shape.

Can you just repeat the second part of the question again? Sorry, it's not very clear.

Unidentified Participant

That's okay. The second one was on the Telematics' side. Just wanted to know the organic revenue growth in Q1.

Harold Goddjin - TomTom NV - CEO

Organic growth, yes, so total growth was 35%, I think.

Marina Wyatt - TomTom NV - CFO

38% for the installed base.

Harold Goddjin - *TomTom NV - CEO*

38% for the installed base. The only [non-organic] bit of growth in our total installed base is the acquisition we did last year in Spain, and that accounted for 30,000 subscribers, I think.

Marina Wyatt - *TomTom NV - CFO*

Yes, but the growth year on year, overall in the WEBFLEET installed base was 38%. Excluding Coordina, it's around 29% or 30%, just to give you -- and on the subscription revenue line, the corresponding numbers are 35% and excluding Coordina, probably goes down to somewhere around 29%, something like that, I would estimate.

Unidentified Participant

Thank you.

Operator

There appear to be no further questions at this time. I would now like to hand the call back to Harold with any points you wish to raise.

Marina Wyatt - *TomTom NV - CFO*

Thank you. It looks like there is -- is there one other question or not? Not sure.

Operator

Hans Slob.

Hans Slob - *Rabobank Equity Research - Analyst*

Yes, I think that, in your European PND business, you saw growth, in spite of the market being down 12%. Could you give the increase for your blended ASP for the European PND business, because I got the feeling that the blended ASP is up a little bit more than we saw last year?

Marina Wyatt - *TomTom NV - CFO*

Yes, I think it was a couple of euros in blended [ASP] for Europe. It was up about EUR2.

Hans Slob - *Rabobank Equity Research - Analyst*

EUR2 on a blended basis for Europe? Okay.

Marina Wyatt - *TomTom NV - CFO*

And that's blended for everything.



Hans Slob - Rabobank Equity Research - Analyst

That's including North America?

Marina Wyatt - TomTom NV - CFO

Yes, that includes -- so Europe's probably a little bit more than that.

Hans Slob - Rabobank Equity Research - Analyst

Yes, of course, yes. And maybe last one, the strong growth acceleration you're seeing for really the Telematics' business, what is really driving that? Is it new products? Is it the market which is doing better or --?

Harold Goddjin - TomTom NV - CEO

So the key drivers are the [market itself], so the awareness and the standing of what Telematics can do to improve fleet efficiency is growing so the market is growing as well as a result of that.

And then secondly, we are growing faster than market is growing, so I think there's the two key drivers.

Hans Slob - Rabobank Equity Research - Analyst

Okay. All right, thanks again.

Operator

[Stuart Jeffrey, Nomura Securities].

Woojin Ho - Nomura - Analyst

This is Woojin Ho for Stuart Jeffrey. Couple of questions, first on the sports watches. Could you share with us what your channel strategy is, going forward? I understand it's a fairly newish category for you as a stand-alone and no longer partnering with Nike. But what is your go to market strategy and channel strategy, going forward, from here?

Harold Goddjin - TomTom NV - CEO

For the sports products or for our retail products?

Woojin Ho - Nomura - Analyst

The sports watches.



Harold Goddjin - *TomTom NV - CEO*

There is some overlap, but there's not 100% overlap in distribution channels with the PND category. We are expanding our distribution channels so there's an important -- a more important online component and there is a specialized sport channel component as well, where we're opening doors both in Europe and in North America.

Woojin Ho - *Nomura - Analyst*

And then secondly, in terms of the new map platform that's supposed to go live by the end of 2014, could you share with us or provide an update on your conversations with the auto OEMs in terms of the map platform? And I understand there's design cycles where designing cycles are essentially long, but given that you have been working on it for the better half of a year, do you expect the designing cycles with the auto OEMs to be shorter?

Harold Goddjin - *TomTom NV - CEO*

The mapping platform, that's an important investment we're making there. We expect good things coming out of that. It will make our platform more effective in terms of change [traction], error correction, it's a great platform for further automation, but also delivers changes to the map database on an incremental basis in a real-time basis with minimum legacy, which is very important. And we can also update databases that are stored in vehicles on an incremental basis over the air.

So what we are solving is one of the big complaints that consumers have about inbuilt car navigation systems that map runs out of date, they don't know what to do about it.

And secondly, we are creating a platform for further innovation. We expect that the requirements for map data, map accuracy will go up in the coming decade as a result of automated driving initiatives, and we need a cost effective, transactional-based system that can deliver that level freshness that is required.

There is significant interest from the car industry in those technologies. We're running a number of pilots. We're running pilots with incremental updates and new data formats that support incremental updates, but also in the area of automated driving, and we try to establish standards that are needed to empower automated driving.

I don't think that will have, in itself, material effect in decision cycles and design cycles. They're inherently long; we work hard to reduce them based on modular technology and modular software components and we see some movement in the right direction. But I think it's still fair to say this is a fairly conservative industry where safety security is paramount. I don't see a real shift towards more consumer-like product cycles, if you like.

So don't expect material changes soon. I think, at some point, we will see improvements in those cycles, but they remain fairly long for the moment.

Woojin Ho - *Nomura - Analyst*

Thank you.

Operator

Shyam Kumar, TT International.



Shyam Kumar - *TT International - Analyst*

I've just got a strategic vision question. It occurs to me that you've got this strategic mapping asset which, go back four or five years, were worth significantly more than they are now; one of three [scarce] global assets. What is your vision on a three to five year view that's really going to grow the value of this asset back up? Is it, as you mentioned, Smartcars and the digital map being critical to more automation? Is it the Internet of Things and more location-based devices and more verticals beyond just the smartphone, as it's been the last few years? But what excites you on a three to five year view, in terms of having this mapping asset which you're improving?

Harold Goddjin - *TomTom NV - CEO*

The prospects of having much better technology to serve the needs of the auto industry are interesting and important and provide upward potential, both in volume and in market share.

I think that's a very important development that is welcomed also by the car industry and partners we're working with. Also in consumer and licensing I think there is -- we are serving already a number of various strategic customers. Our maps are used more than any other map, except for Google's. We're serving the whole Apple infrastructure and Apple ecosystem, as you probably know. So that's an important area.

And then there is the whole discussion about Internet of Things and wearables and new devices that will also need a location component, including our own fitness watches, which also provide upside towards the future.

Shyam Kumar - *TT International - Analyst*

And can I just follow up? On the automotive side, what makes you feel more confident that you're not going to see some of the commoditization that we saw, let's say, in the smartphone segment over the last four, five years in terms of the automated driving and the like? Is it just a much more higher value added product, need for much greater reliability of maps? What is it please?

Harold Goddjin - *TomTom NV - CEO*

We need more detailed maps for highly automated driving. We need information based on lane level. We have technologies to deliver that type of maps. There is great opportunity to make the sensors that are built in cars part of the map-making infrastructure. So cameras, radar and accelerometers and all sorts of sensors that are increasingly being part of the standard kit of cars. And we actively looking at ways, together with the [OEEs], to collect that information, compare that with what we have in the database and use the information for change [detection] and for automated map making.

There is a greater intimacy, if you like, between a map and a car. It requires innovation, new ways of doing things, and I think we're well placed, based on the investments we've made in our technologies, to play key role in those ongoing innovations and developments. So we're excited about that.

We see also some short-term opportunities to capitalize on those investments, and capitalize on those innovations, and so I think that is an important area and an area of great attention.

Shyam Kumar - *TT International - Analyst*

Perfect. And can I just very quickly switch tack back on to location based services, the Internet of Things, they're more vertical as you mentioned, they need location -- usage-based insurance, location-based advertising. Just so that I understand the [value] creation to the owners of the mapping asset, does all of that stuff -- at some point some of that money trickle down to the owner of the mapping asset? Or can it be --?

Harold Goddjin - *TomTom NV - CEO*

Not all that money will trickle down to the owner of the mapping asset, but we're looking for substantial share of the cake. A proportion of that money will go to the business that has the customer relationship, and a proportion will go to the map owner, and that is an ongoing thing, as you well know.

But there is a role for all those new developments and new technologies where maps play a major role, and so we feel good about the strategic value of that asset.

Shyam Kumar - *TT International - Analyst*

Okay. So the basic premise, the mapping asset will underpin location-based advertising and all these things? They need the mapping asset for that?

Harold Goddjin - *TomTom NV - CEO*

It's happening already and it will continue to happen. Not only advertising, but also transactions and there's a lot more to come in that space.

Shyam Kumar - *TT International - Analyst*

Okay, and mapping's critical to all that?

Harold Goddjin - *TomTom NV - CEO*

Mapping is essential component.

Shyam Kumar - *TT International - Analyst*

Okay. Thank you.

Operator

(Operator Instructions). I would now like to hand the conference back to Harold for any remarks you wish to raise.

Harold Goddjin - *TomTom NV - CEO*

Well, thank you very much. I think this concludes the Q&A session. Thank you for joining us today and we wish you all a pleasant day. Thank you.

Operator

Thank you. This does conclude your conference call for today. Thank you for your participation, you may now disconnect.



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