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PRESENTATION

Naoki Hishinuma

Hello, my name Hishinuma, from Finance and Division Bridgestone Corporation. Thank you very much for joining on the occasion of this conference call. I'm going to report on the financial results for the first quarter of fiscal 2018.

Today, 2 points are going to be reported to you: The first quarter of fiscal 2018 business and financial performances as far as consolidated projections for our first half fiscal 2018.

Starting with the first quarter, fiscal 2018, the overview of business and financial performance. This is the environment surrounding Bridgestone Group, before currency exchange, raw materials, prices and tire demand. Currency exchange, vis-a-vis the USD, strengthening of the yen, vis-a-vis euro, weaker Japanese yen versus the previous year.

Raw material prices. Natural rubber prices were lower than in the previous year. In contrast, crude oil prices were higher than in the previous year. Tire demand. In North America and Europe, in the overall on the lone Japanese market, in other words, there were have maybe weak demand experience, which was the repercussion of the early buying in Q1 2017. However, global tire demand continued to grow steadily. Tire sales and growth for the first quarter fiscal 2018 appears [on] because of the early buying in the previous years [have made] -- there is a repercussion of that globally. TBR, again, had in the early buying [first year] last year. However, in particular, oil demand on TBR tires were very strong. So globally, for TBR, 100%. For ORR tires, that will be the auto large and larger ORR tires. The distant performance was there. Steady positive trends as well as the situation which is in line with the first half guidance. As to the PSR higher rim diameter tires of over 18 inches, the 15% over the previous year. So very robust situation is continuing.

First quarter, consolidated results, in its summary. Net sales, tires, diversified products or sales in total, they haven't gone up vis-a-vis the previous year. Operating income in the tire operations more or less consistent with the previous year. Diversified product, operating income, who was lower than in the same period previous year.

More detailed analysis will follow. As to the profit, attributable to owners or the parent, till last year, there was extraordinary [hambet] losses booked. And for this first quarter, even the good effect from the tax reforms in the United States, easing our tax paying burden. They were the factors behind this increase.

Analysis of consolidated operating income for the first quarter. This had series of price hikes executed last year, contributed positively mid to the results in this quarter. However, raw materials, particularly heavy crude oil, related to how much charges went up. And SG&A, spend was higher in this quarter. So consolidated operating income, as a whole, for this first quarter, was lower as have done in the previous year.



The financial results for the first quarter by geographic segment. Consolidated net sales, with exception of the Americas, we had adverse effect to the net currency exchange rate was there. Otherwise, net positive increases. And for the consolidated operating income, aside from [Abna] Japan, because of winter tires or the ORR tires, the negative situation is in contrast with the previous first quarter.

Moving on to the consolidated projections for the first half of fiscal 2018. First, the business environment. Currency exchange assumptions are stronger yen to the U.S. dollar and weaker yen to the euro. Raw material prices are projected to be at more or less the same level as forecasted in the February guidance. Tire demand generally expects its steady growth globally.

Let me now comment on the TireHub, a new U.S. national tire distributor joint venture between our U.S. subsidiary, Bridgestone Americas, and Goodyear, which was announced on April 17. TireHub is a new company that combines the wholesale distribution network of the 2 companies to provide access to the full array of products from both companies, satisfying rapidly-growing demand in North America for larger rim diameter premium tires. TireHub will complement both companies' networks of existing third-party distributors and provide a superior fully integrated distribution warehousing sales and delivery solution.

Before concluding, let me summarize the first quarter results and the first half projections. As for tire sales volume, the first quarter felt the impact of the early buying in the 2017 first quarter in North America and Europe, but for the first half, we expect the volume to be in line with the guidance. As for selling price in raw material, we expect the spread to remain positive throughout the first half. SG&A expenses are to be controlled in accordance with the market and the sales trends. Accordingly, the guidance remains unchanged from the February announcement.

That concludes my very brief presentation on the first quarter results and the first half projections. Thank you for your attention.

QUESTIONS AND ANSWERS

Unidentified Company Representative

Let us begin questions-and-answers session. May I start with you Mr. Matsumoto from SMBC Securities.

Kunihiro Matsumoto - SMBC Nikko Securities Inc., Research Division - Senior Analyst

My first question has to do with raw material situations. I would like to hear further details that your rubber as well as net oil related to materials percentages and recent situations. In particular, crude oil prices have been hiking. That, of course, is not a situation unique to Bridgestone and other companies have been reporting the incipient signs of negative impact, but what is your case? And as you factored in assumptions at the time of the February guidance, whether or not, the expectations remain solid and not changed beyond the second quarter?

Unidentified Company Representative

Okay. So the effect of raw material prices. On the year-on-year basis, natural rubber was lower than one year earlier. But see you point out, conclude oil prices being higher, would mean that all in all, the [petrochemical] data to materials hiked in prices. So the slight negative. So there was the overall high experience that we had in the first quarter. So [Michelin] gave us the break out of JPY 4 billion effect? Natural rubber was slightly positive by about JPY 1 billion, I'd say, all the rest was negative, minus JPY 5 billion.

Kunihiro Matsumoto - SMBC Nikko Securities Inc., Research Division - Senior Analyst

What about the situation that you now expect beyond the second quarter?



Unidentified Company Representative

Okay. We do recognize that crude oil prices are continuing to rise. However, it is not our expectation that the rising trend will stay. So that being our continuing belief, we don't recognize that is it any sign of the structural changes in the supply and demand, the balance. But if -- the actual experiences, as we go forward, that remain contrary -- turn out to be contrary, then we will factor those in.

Kunihiro Matsumoto - *SMBC Nikko Securities Inc., Research Division - Senior Analyst*

The second question. Again, what's difficult for us to analyze has to do -- with those other factors combining selling prices, mix and volume? And of course, demand that is something I take a strong interest in. The repercussion from the early buying which you experienced in the previous year, so how is it? And by region also? And also, I've been looking at the regional segment, the EMEA region [on large] seemed to have struggled a little bit. So I just would like to know have the basic trend, however, doesn't changed? Or were there any one-off sort of factors? So I understand that you have the nuances and everything stayed within your overall expectations, which isn't given in the guidance back in February and so would you please give us the details?

Unidentified Company Representative

Okay. To answer, let me give you the details, breakout of selling price, the volume and others. Raw materials, as we said previously, for JPY 120 billion, whereas negative raw material haven't caused impact, which was experienced last year. They're doing the cost of 2018, 20% of it will be covered by selling price and adjustments. And that went as we expected in the first quarter.

So this coverage. Our basic expectation is that we'll be able to cover that effect by doing the first half of this year, but in that 6-month period, the coverage will be given bit more in the first quarter than in the second quarter. On top of that, the volume as you point out we experienced last year, the -- particularly in the overseas market and there were early buying trend anticipating price hikes. This -- that meant that in this quarter on the year-on-year basis volume came down a little bit. Other than that, in European local subsidiary level operation, the unrealized profit on inventory that was in effect that we had to confirm, this -- that was negative, in other words. As to the effect of last year's early buying, by region. Last year, in Japan, price increase in the second quarter and the early buying, the trend was created in Japan. I said that was last year and effect of that risk felt, but outside of Japan, the North America and Europe or Asia even, we do have to confirm that there is an effect of the repercussion of that early demand experienced last year.

I hope that suffices as an answer.

Kunihiro Matsumoto - *SMBC Nikko Securities Inc., Research Division - Senior Analyst*

Yes, it does. So basically, the first quarter, went as you expected? And since I know that you are there Mr. Eto, would you give us your appreciated remark?

Akihiro Eto - *Bridgestone Corporation - CFO, Executive VP & Executive Officer*

I hope you would appreciate my remarks, but I'd say that all in all, the first quarter operation was in line with February guidance for the first quarter in reference to order numbers.

While to be very exact on top line number was slightly, just slightly have lower than the guidance figure. But it was very slight and operating [income] for that matter, had the actual exceeded from our guidance number, back in February. Volume. It varied by geographic region. In Europe, for instance, price competition continues to be quite tough. There was not very easy to capture the volume in Asia. Asia is a combination of various country markets. For instance, demand recovery in Thailand, as it turned out, was slower than what we had anticipated. But other than that, in all other areas and markets, the factory affects were positive. So in the final quarter last year, we gave various explanations about our expectations. So as we close the books for the first quarter, what went against our more robust expectation? Well North American TBR market, as we said previously,

the [OER] versus the [repped] market. The OER demand was particularly strong and then, how it was into the first quarter this year that we purposely enhanced supply volume. However, as it turns out, in this first quarter, North American TBR, OER market continued to be very strong meaning that even the incremental supply volume had to be offered to the OE customers as well, in part. The raw material cost impact, basically, in line with our expectations if anything slightly mild than our expectations. So factoring all of the factors in, I conclude after all that we experienced in the first quarter, there was more or less in line with our expectations.

Now what's our expectation going forward particularly, in reference to the petrochem raw material costs? Even in the February guidance, our assumption was not expecting any sharp prices into raw material costs. But we were not expecting any -- have the sharp decline in terms of costs, either. So we expected that the competition will be, basically on the volume that we can secure for our business. As it turns out, as we close the first quarter books, basically the situations have been in line with our expectations. Middle East situations. That's something that we continue to look at very closely in the crude oil prices hiking. We have to keep our eyes on the supply available, but even though with the rising trend of crude oil prices, then there's another resource called Shell Oil. And the utilization of those rigs can be enhanced this year. So no big factor. So the -- what about EMEA on the situation who was just -- have [transcend]? My quick answer is that we don't believe that there is any concern that we have to continue to have. In the second quarter and beyond, I'm certain will be net profitable. And as to the Middle Eastern operations, we have to say that aside from the local books reported, there were exports from Japan and the export portion, even in the first quarter, was positive. So strictly in reference to the locally-produced and locally-sold goods on a year-on-year basis. In Europe, the volume came down a little bit but there was only the local portion of that, not combining exports. And for profit contribution purposes, I have to say that the Russian plant it's still in the phase of ramp-up period and also [middle] market has not recovered more strongly and so those were the negative factors, which pressed down the profit generation. But in due course in the core situation will [Hana] improve and also Hana we certainly do look to the recovery of the market. I certainly do not expect having the continuing trend of deficits in [hardly] those local operations.

Unidentified Company Representative

Okay, then let us move on to Mr. Yamaoka from Nomura Securities.

Hisahiro Yamaoka - *Nomura Securities Co. Ltd., Research Division - Research Analyst*

What do you think about that the PSR demand situation in North America? I understand that even remembering the early demand experienced in the first quarter last year, still have a basement of that market demand. But somewhat, euro have been feeble. But at the same time, have now OE segment feel very strongly, even despite her decline trend over automobile assembly. So what is your overall analysis?

Unidentified Company Representative

My answer. Thank you, North American PSR demand have the effect created by one-off early buying in the first quarter last year. For the replacement segment of the PSR market North America, if you still remember this establishment or the new entity called the TireHub. Because of this new company establishment -- before going on, let me just confirm your question has to do with the sales or demand?

Hisahiro Yamaoka - *Nomura Securities Co. Ltd., Research Division - Research Analyst*

No, I would like to know more about your sales?

Unidentified Company Representative

Okay. That is what I thought. I was about to say that there was a repercussion from the early buying last year and the other big factor having to do with the establishment of the TireHub, this one-off effect the inventory adjustments, which were necessary at the wholesale operations. And also for the OE market, overall, a 97% and [ours], before OE on the tire, and the segment was 111% versus previous year. Particularly, in reference to the demand that coming for large size tires for SUVs or for other larger vehicles. And we did offer priority supplies to some of those OE entities.



Hisahiro Yamaoka - *Nomura Securities Co. Ltd., Research Division - Research Analyst*

Okay. That suffices. The PSR OE are 91% and the market, as a whole, was 100%. But your [OER] experience was 9% down from the previous first quarter. So I would like to understand now, what your situation and expectations are? Because I remember you used to say that associates' brands were down but the Bridgestone and Firestone brands were up.

Unidentified Company Representative

Okay. Thank you for answering (sic) [asking] that. The total was 100%, the legacy [RMA] or the U.S. [TMA] have the bracket was 95%. As well as all the others went up by 14% -- 114%. Seeing these percentages, we have to recognize that further penetration of low and the more cost-effective or the cheaper tires have been growing in demand and this overall effect has been felt by us.

Hisahiro Yamaoka - *Nomura Securities Co. Ltd., Research Division - Research Analyst*

Okay. My second question has to do with the newly-established TireHub. What is our synergy expectations on the profit and loss coming forward, upside potentials? For instance, the, your new TireHub partner, Goodyear, it's starting to talk about the profit impact that they can expect to come 2019 or '20? What do you expect on future profit contributions that you can expect as a good synergy of this new creation of the TireHub?

Unidentified Company Representative

Thank you for the question. To enhance distribution network, to make it more efficient there was exact reference to delivery and logistics of the already operations cost savings. And also in the future sales opportunities, will become bigger because of the greater points of contacts with customers, they have the greater convenience brought on by our customers would mean that sales opportunities will be there.

Hisahiro Yamaoka - *Nomura Securities Co. Ltd., Research Division - Research Analyst*

Okay. But this TireHub creation, what you said was that you seem to be focusing very much on the increasing demand on high-rim diameter premium tires segment? What about the end-customer portion of the overall flow from the wholesale, maybe operations were involved, should I think, after all, that previously, you could not offer enough required supply of goods to the end-user market?

Unidentified Company Representative

Eto would like to take that question.

Akihiro Eto - *Bridgestone Corporation - CFO, Executive VP & Executive Officer*

First of all, I accept that combination of distribution model was not perfect of 100%. But then, what could we do further into the future? Of course, we could have taken measures to become more cost-efficient but please do understand that our answer was not meant to just simply increase number of stores selling our goods. In other words, by having this joint venture scheme happening with our partner Goodyear, we will be able to have even more evenly balanced coverage that with the density or the concentration from the tires, which can be made throughout the market. To just a way, and evenness. If we had been to do it all on our own, it would have taken a lot more time and money so we chose not to do that rather not to work without partner with Goodyear. But for our business as a whole, in the PSR replacement in the market business, about 30% of all distributors operating in the [placement] PSR market, will utilize this TireHub, the opportunities. This share of that, that is not the 100% of it but it certainly, should benefit in the future operations.

Unidentified Company Representative

Let us move on to Mr. Sakamaki from Daiwa Securities.

Shiro Sakamaki - *Daiwa Securities Co. Ltd., Research Division - Research Analyst*

Sakamaki here. The first question has to do with the spread situations. In the first quarter and what you thought? Because for instance, Michelin said that during this first quarter, they had a bit effect of the selling price, was about 3 percent plus. And so for your case, I tend to think that maybe it was about JPY 25 billion of net good effect of selling prices. You also talked about the UPI unrealized profits and inventory, which pushed down the actual profits that you could have enjoyed otherwise. So what -- how was it after all? And also, on speaking of the Natural Rubber [hamadi] [ease] media price situations, you said that the effect was JPY 1 billion, but was that all? It seemed a little bit too modest. What about the other cost factors?

Unidentified Company Representative

My answer, selling prices.

Yes, what you quoted was quite right. But other factors, we talked about unrealized profits in inventories experienced in the local operation in Europe and also for the North American TBR and the other market, [OER] segment continuing to be very strong meaning that net replacement market supply had to be impacted somewhat by that. So we are focusing -- on the first quarter, experience the mix between the replacement and OER segments was not the best that we could hope for. So [Hamada] was there. And inclusive of the unrealized profits in inventory, the other factors, all in all, again, worked against the profit creation. You said that JPY 1 billion benefit only for the Natural Rubber and it seemed a little bit too modest. Maybe so, but during the first quarter that was our experience and going beyond in the second quarter and onward, we do expect that the benefits will become bigger.

Shiro Sakamaki - *Daiwa Securities Co. Ltd., Research Division - Research Analyst*

I see. I have a follow-up question on TireHub. I'm afraid, I still don't have a full understanding yet. Goodyear is talking about an impact of a temporary decline in volume in relation to TireHub. Do I understand correctly that the volume decline was confined to the inventory adjustment in the first quarter? That's my first question. And I'm also wondering about the benefit of this joint venture in terms of retail network. I believe, Bridgestone has by far broader and stronger network. So the equal partnership sounds too generous on your part -- the balance between the 2 companies seems somewhat lopsided. Can you give us the background?

Unidentified Company Representative

First about the inventory adjustment in relation to TireHub. Basically, it was confined to the first quarter. So we shouldn't expect further impact in the ensuing quarters. And the question on the balance with Goodyear, in terms of wholesale locations in the U.S., we have 38, Goodyear 45. So rather comparable figures.

Shiro Sakamaki - *Daiwa Securities Co. Ltd., Research Division - Research Analyst*

I see, but it's quite different in terms of the retail network, is it not?

Unidentified Company Representative

Actually, the main focus of this scheme is the wholesale distribution, the wholesale coverage. In total, we are to have about 80 wholesale locations and distribution centers provided almost equally by the 2 companies. What the target areas are, would depend on each wholesale distributor.

That's the purpose of this joint venture and for that, we're going to have neutral management team. So it should be separated from our retail network consisting of over 2,000 retail stores.

Shinji Kakiuchi - *Morgan Stanley, Research Division - Equity Analyst*

Kakiuchi from Morgan Stanley MUFG Securities. My first question is also on TireHub. Do I understand correctly that the inventory adjustment was carried out so as to end the wholesale distribution through the third parties with a view to consolidating the whole distribution to this new company? That's my first question.

Unidentified Company Representative

By inventory adjustment, what I meant was this, with this new distribution company, while conventionally our own distributors were only carrying products of our brands. But now they are going to carry other brands as well. That's what I meant by inventory adjustment.

Shinji Kakiuchi - *Morgan Stanley, Research Division - Equity Analyst*

I see. My next question is on profit. There was an SG&A expense increase in the first quarter. In the February guidance, you were expecting a year-on-year increase of JPY 31 billion for the first half. The actual amount of SG&A expenses in the first quarter was JPY 9 billion. So seems rather low. Was that because of the level of SG&A expenses last year as the base? Or was it that you actually spent less than projected in the guidance? Can you give us the background?

Unidentified Company Representative

Regarding the SG&A expenses, I think, we did explain this at the time of the February guidance, but the practice in the past has been that as we fell short of achieving the top line targets, in order to secure the bottom line, we sort of used SG&A expenses as adjustable expenses as a buffer for the lack of a better word. While there are some expenses and resources that we want to secure from the medium to long-term view. We tended to adjust the size of SG&A expenses to align them with the expected level of the gross margin to a certain degree.

Last year, in the face of shop rise in raw material cost, we couldn't transfer that to selling price 100%. And therefore, we had to cut back on SG&A expenses. Whereas this year we expect sales volume to recover and in fact, we see clear and sustained growth in ORR volume. Again, such a backdrop for this year, we are to proactively allocate resources to where we couldn't in the past. That's our stance this year. And that's reflected in the increase in SG&A expenses, which, in turn, should push down the profit. That's the plan. Now having said that, the timing of spending the incremental portion would be in light of the sales trend. Earlier, I said the first quarter results were more or less in line with the guidance, but for the second quarter onward, as the sales volume makes a full-fledged increase, we will monitor and check that state and make decisions on how much to spend. With that in mind, our budget expects a larger spending in the latter half. And before actually making spending decisions, we will check the level of the gross profit.

Arifumi Yoshida - *Citigroup Inc, Research Division - Director and Analyst*

Yoshida from Citigroup Global market Japan. My first question is on raw materials prices and higher selling price. I'm hearing from different sources that the price of carbon black is currently rising and that there is a shortage of supply. So how likely is the risk of unavailability of carbon black disrupting or upsetting your tire production, the supply falling short of the demand? Since you have your internal supply, I don't think this is much of a concern to you. But could you share your thoughts on sourcing or procurement? And also, on raw material prices, carbon black and other sources are rising in price. And generally, I think you would then raise your selling price in response. I think, that's the first step as the Tier 1 tire manufacturers, including yourself. Last year, when some companies raised price, demand fell. And there were some developments associated with that. So I'm wondering whether the general practice of raising price to reflect higher material costs has been suspended. Or whether it remains unchanged? That's my first question.



Unidentified Company Representative

Since it's a strategic question about carbon black rather than from the financial perspective, Eto, in charge of procurement and natural resource sourcing would respond to that question from that point of view.

Akihiro Eto - *Bridgestone Corporation - CFO, Executive VP & Executive Officer*

I think the anxiety over the shortage of carbon black is coming from coal, whose consumption is declining out of environmental concern. Because coal, as source is declining in volume, carbon black will be in short supply. I think that's the general picture or the general story line. But as you know, carbon black comes not only from coal but from oil as well. We, Bridgestone have flexibility in what source material to use. If one becomes harder to get, we can shift to the other. So we have that flexibility that's one. So we're not concerned about that supply and demand relationship. In our internal supply, we see no change in the cost structure and for external sourcing as well we do not see the need to worry about changes in price. As for higher natural or higher raw material prices. Hypothetically, increasing cost shall be reflected in higher selling price, albeit with some time lag. Our past experience tells us that there are markets where that price transfer is relatively easy and others that are not. Markets with low elasticity, Europe being typical. So we might see some difficulty there but basically, we will try our usual practice and I think it has a good chance of being successfully implemented.

Arifumi Yoshida - *Citigroup Inc, Research Division - Director and Analyst*

My second question is on premium winter tires during the first quarter. Year-on-year growth at 125% rather significant growth, mostly in Japan, I suppose. So what are the factors behind it? Also, what will be the financial impact if it were the fourth quarter significant impact but maybe not so big an impact in the case of the first quarter. So can you comment on the financial aspect, the actual value?

Unidentified Company Representative

True. Contribution from growth of premium winter was mostly in Japan, big snowfall in the early part of the year. That was the biggest factor. You asked about the financial impact. While winter tires grew due to heavy snow, timing of switching to summer tires had slipped back. So in terms of the total number of units, the profit contribution growth during the first quarter was smaller just a slight increase. True in terms of product mix, there was a positive financial impact but I'm afraid we cannot disclose the actual amount.

Arifumi Yoshida - *Citigroup Inc, Research Division - Director and Analyst*

I see. But by geographic segment operating income in Japan increased by about JPY 5 billion. Am I correct to assume that the majority came from ORR? And less than half from snow and winter tires?

Unidentified Company Representative

Eto in charge of business in Japan.

Akihiro Eto - *Bridgestone Corporation - CFO, Executive VP & Executive Officer*

As you've correctly observed, ORR showed a steady growth, but there was some delay in deliveries from the first quarter to the second quarter, especially some deliveries of ultra-large ORR tires. So it was not so big a contribution. On the other hand, among PSR and TBR tires, not just driven by snow tires, there was a positive impact on profit, in terms of volume, cost structure, and raw materials, meaning lower natural rubber price. So in terms of profit contribution, I would say, more or less evenly split between ORR and PSR and TBR tires.



Unidentified Company Representative

One last question, again, from Matsumoto of SMBC securities.

Kunihiro Matsumoto - *SMBC Nikko Securities Inc., Research Division - Senior Analyst*

A follow-up question on the previous question regarding the ultra-large ORR. Since the sales were pushed back from the first to the second quarter due to a delay in deliveries, you said. So apparently, the growth accelerates in the second quarter. So that should mean that the year-on-year growth for the second quarter should be higher than the projected 15%. Am I correct?

Unidentified Company Representative

You are correct. The first quarter was a little short of the first half projection at 115%, but as I said, there was -- this was due to a delay in deliveries to certain customers. So for the first half, overall, we expect to be in line with the guidance with the recovery in the second quarter.

Unidentified Company Representative

Since there are no further questions, this concludes today's briefing. Thank you for your participation.

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