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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Phoenix New Media 2018 First Quarter Earnings Conference Call. (Operator Instructions) I must advise you that this conference is being recorded today, Tuesday, the 15th of May 2018.

I'd now like to hand the conference over to your first speaker today, Ms. Nicole Shan. Thank you. Please go ahead.

Nicole Shan

Thank you, operator, and thank you, and welcome to Phoenix New Media First Quarter 2018 Earnings Conference Call. I'm joined here by our Chief Executive Officer, Mr. Shuang Liu; and Chief Financial Officer, Ms. Betty Ho.

For today's agenda, management will provide us with the review on the quarter and also include a Q&A session after the management's prepared remarks.

The first quarter 2018 financial results and webcast of this conference call are available at the Investor Relations section of www.ifeng.com. A replay of the call will be available on the website in a few hours.

Before we continue, I refer you to our safe harbor statement in our earnings press release, which applies to this call as we will make forward-looking statements. Finally, please note that unless otherwise stated, all figures mentioned during this conference call are in renminbi.

With that, I would like to turn the call over to Mr. Shuang Liu, our CEO.

Shuang Liu - Phoenix New Media Limited - CEO, Director and Chairman of the Board of Yidian Zixun

Thanks, Nicole.

We recorded another quarter of solid results that carried through last quarter's strong growth momentum in our advertising business despite of the tightened regulatory environment in China across the entire online media industry, seasonal slowdown during the Spring Festival in February and strict media controls during the two sessions in March.

We are pleased to see that our mobile advertisement remains a strong growth driver, recording 46.3% year-over-year increase in the first quarter of 2018 under the old accounting standard of ASC 605.



Recently, several Internet companies were called upon by the authorities to further regulate their platforms and to ensure that the Internet space is free of vulgar and violent content. As China's leading online news provider, it is our responsibility and obligation to work with the government on enforcement of these policies. Our strong media DNA and our mission to provide high-quality, professional and unbiased news content allow us to stay at the forefront of the media space. We believe the increased media regulation is beneficial to the whole industry by helping foster a sustainable and healthier market and will enable us to further realize our mission as a professional and unbiased media in the mid- to long term -- long run.

Meanwhile, we continue to innovate and upgrade our products and services to enhance our competitive advantage as China's leading information provider. And in order to differentiate us from our peers, we seek to strike 3 balances in our content offerings: the balance between time-sensitive news and non-time-sensitive information. For instance, lifestyle, culture, entertainment or history-related information; between public concerns and individual interests; and between eye-catching clickbait with high CTR click-through rate, while at the expense of quality or accuracy and valuable content that our users generally enjoy reading and are inclined to save and share.

Through our coverage of major events and breaking news, we provide our users with timely, high-quality and unbiased news and information. We're also a pioneer in utilizing AI while providing editorial recommendation to entertain our users and meet their individual interests. Beyond that, we not only keep our users informed and entertained, but more importantly, as a leading Internet media company, we have always put high emphasis on our mission to instill value, soften prejudice and empower them with premium content.

During this quarter, we introduced a number of initiatives for the production of original content across our Internet-based verticals. These initiatives are designed to streamline the planning, production and the marketing process of our original content. In addition, we've introduced MCNs, multichannel network, in suitable vertical channels to increase our content ecosystem, which, in turn, should help us better meet the demands of our users as well as advertisers. At the same time, we have also allocated more resources towards media content to diversify our content offering, and it's paying off in the first quarter of 2018.

We are delighted to report that videos are now surpassing audio, visual and text to be the most popular form of content videos on ifeng news app. We're confident that these highly differentiated content offerings and content operation strategies will further strengthen our brand and help us attract and retain more users.

We expect that in the remaining quarters of 2018, we'll see a significant improvement in our user experience and operating margins as we put more efforts on our original content, enhance our we-media content offering, achieve the aforementioned 3 balances in our content operation and, hence, optimize our content ecosystem.

With regard to the advertisers, we rolled out Feng Yi, a programmatic platform to help our brand advertising clients track and improve the performance of their apps. Starting with clients in the automotive and home appliance sectors, we believe the new platform will allow us to better serve the needs of our clients and maximize the advertising ROI.

Specifically, we established copyright sharing partnership with high-quality video producer to develop movies, TV shows or mobile games based on the literature IPs we own. For instance, our gaming decision is cooperating with a film studio to co-develop TV shows and mobile games based on content from Adventure in the Skies, (foreign language), a martial arts literature IP developed by Phoenix New Media.

Finally, our Yidian side. We were encouraged by Yidian's solid top line and traffic growth in first quarter of 2018. Yidian's growth revenue for the first quarter tripled compared to that of the same period last year. We're confident that Yidian's close strategic cooperation with OPPO and Xiaomi, its advanced content operations and its strong monetization performance will enable Yidian to double its full year revenue in 2018.

Yidian's popularity was demonstrated by performance during the two sessions in March, working closely with several mainstream and state-run media outlets, Yidian's two sessions channel aggregated 870,000 related new stories, averaging 7.12 million viewers per daily during the 3-week period.

One of the feature stories, Great Power and New Army, (foreign language), which included over 2,800 related news articles accumulated more than 100 million views.

Following the conclusion of the two-sessions meeting, Yidian collaborated with China Daily to analyze viewer behavior. We believe such data analysis will help Yidian improve the quality of its future coverage of national events.

As we stated in our previous earnings call, Yidian is our major strategic investment, and we have the right to consolidate Yidian's financial statement with certain condition met. And at the same time as the largest shareholder of Yidian, we are also open to all viable options to ensure its long-term goals and realize its value.

One of the many options we are evaluating is a potential list in China. As you may be aware, recently, the China Securities Regulatory Commission introduced a number of incentives to encourage Unicom to list domestically in the Asian market, where Chinese companies have significantly higher valuation than their overseas-listed peers. We, as Yidian's other shareholders will monitor the development of the Asian market closely. We'll carefully evaluate all of our options in the coming months and keep everyone updated of any new developments.

With this, I will turn the call over to our CFO, Betty Ho.

Yip Ho - *Phoenix New Media Limited - CFO & Director*

Thank you, Shuang, and thank you all for joining our conference call today.

I'm pleased to announce that we once again delivered solid financial results and met the Chinese New Year and two sessions.

Before I update you on the financial details, I would like to shed light on the impact of the newly adopted accounting standard ASC 606, namely revenue from contracts with customers, which is effective from January 1, 2018. By applying the modified retrospective matter under the new standard, sales tax and surcharges previously presented as a component of cost of revenues are now presented as a reduction item of revenue, and some advertising for advertising partner transactions previously not recognized as revenues are now recognized as revenue.

For comparative purposes, herein we'll provide our financial highlights under the old accounting standard, ASC 605. For the amount and ratios under the new accounting standard, please refer to our earnings release where we have provided financial items under both the old accounting standard and the new accounting standard.

Now let me take you through our financial highlights for the first quarter of 2018. The amounts mentioned here are all in RMB, unless otherwise noted.

The differences between GAAP and non-GAAP consist of share-based compensation and gain or loss from equity investments, including impairments.

Ifeng's total revenue for the first quarter of 2018 were RMB 309.9 million, which is at the high end of the company's previous old accounting standard guidance and represented an increase of 5.2% from RMB 294.5 million in the same period last year. Non-GAAP net loss attributable to Phoenix New Media Limited for the first quarter of 2018 was RMB 52.2 million. Non-GAAP net loss per diluted ADS in the first quarter of 2018 was RMB 0.72.

Starting with revenues. Net advertising revenues for the first quarter of 2018 increased to 10.5% to RMB 266.3 million from RMB 241.1 million in the same period last year. The increase was due to the strong increase of our mobile advertising revenue by 46.3%, which was partially offset by a 26% decrease in PC advertising revenues.

Paid services revenue for the first quarter of 2018 were RMB 43.6 million, down by 18.3% from RMB 53.4 million in the same period last year.



Revenues from digital entertainment were RMB 34.7 million, down by 17.9% from RMB 42.3 million in the same period last year, which is largely due to a 30.9% decrease in MVAS revenues, mainly resulting from the decline in users demand for such services provided through telecom operators in China.

Revenues from games and others for the first quarter of 2018 were RMB 8.9 million, representing a decrease of 19.6% from RMB 11.1 million in the same period last year. This is mainly because to a decrease in revenues generated from web-based games operated on the company's own platform.

Non-GAAP gross profit for the first quarter of 2018 was RMB 155.2 million compared with RMB 133.6 million in the same period last year. Non-GAAP gross margin for the first quarter was 50.1% compared with 45.4% in the same period last year. Non-GAAP content and operational costs as a percentage of total revenue is 34.2% as compared to 35.6% in the same period last year. Revenue-sharing fees as a percentage of total revenue decreased to 2.8% from 5.9%.

Bandwidth cost as a percentage of revenue was 4.6% compared with 4.9% in the same period last year. Sales taxes and surcharges was RMB 25.7 million for the first quarter of 2018 as compared to RMB 24.3 million in the same period last year.

Non-GAAP operating expenses for the first quarter of 2018 was RMB 210.1 million, up by 27.1% from RMB 165.4 million in the same period last year. Non-GAAP operating loss for the first quarter was RMB 54.9 million as compared with non-GAAP operating loss of RMB 31.8 million in the same period last year. Non-GAAP operating margin was negative 17.7% as compared to negative 10.8% in the same period last year. The decrease was mainly due to the increase in mobile traffic acquisition expenses as compared with same period last year as we started to increase our tax in the second quarter of 2017.

Net loss attributable to ifeng for the first quarter was RMB 58 million as compared to RMB 32.2 million in the same period last year.

Non-GAAP net loss to ifeng for the first quarter was RMB 52.2 million as compared to RMB 23.2 million in the same period last year. Non-GAAP net loss per diluted ADS for the first quarter was RMB 0.72 as compared to RMB 0.32 in the same period last year.

Now I will discuss our balance sheet as of March 31, 2018. The company's cash and cash equivalents, term deposits and short-term investment and restricted cash were RMB 1.3 billion or approximately USD 207.6 million. Restricted cash represented -- represents deposits placed as security for banking facilities granted to the company which are restricted to their withdrawal or usage.

Lastly, I'd like to provide our business outlook for the second quarter of 2018. As we have stated above, the company has adopted the new revenue standard ASC 606 since January 1 this year. For comparative purposes, we are forecasting total revenue under the old revenue standard to be between RMB 396.8 million and RMB 411.8 million, representing an increase of 0.9% to 4.7% year-over-year.

For net advertising revenues, we are forecasting between RMB 353.5 million and RMB 363.5 million, representing an increase of 4.4% to 7.3% year-over-year. For paid services revenues, we are forecasting between RMB 43.3 million and RMB 48.3 million, representing a decrease of 20.7% to 11.5%.

In summary, by leveraging our brand influence and innovative advertising solutions, we were able to carry our strong growth momentum into first quarter despite of the seasonality factors. Also, as Shuang mentioned, we will strengthen our content offering and enhance our original content to differentiate our product while we remain prudent on the usage of traffic acquisition cost.

This concludes the prepared portion of our call. We are now ready for questions. Operator, please go ahead.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we have our first question here ready from Wendy Huang from Macquarie.

Wendy Huang - Macquarie Research - Head of Asian Internet and Media

So first, can you further elaborate on the recent regulations impact on the Phoenix news app as well as Yidian? So how long do you expect the current round of regulation to last for? And also the impact on the revenue, how long will it last for? And also the -- from the competition perspective, actually -- do you actually benefit from any like potential budget shift to throw your competitors who may actually suffer more from the regulations? And secondly, on the mobile advertising revenue, it seems that slowed down a little bit recently. Can you give more like specific color on the mobile ad revenue growth into next quarter in 2018? And lastly, can you also provide more detail about the MCN, multichannel network, that you just mentioned in the prepared remarks?

Shuang Liu - Phoenix New Media Limited - CEO, Director and Chairman of the Board of Yidian Zixun

Wendy, this is Shuang, let me answer your question regarding the regulatory challenge. As Phoenix has been operating in China for more than 2 decades, we have experienced the market's ups and downs numerous times. But this time I think it's a one-time thing with relatively limited impact. I think it's an industry-wide tightening, the regulation, not particularly targeting at the -- any individual company. Actually, a bunch of companies, including news apps in the industry, were temporarily suspended in April or be seriously warned or be -- or even just permanently shut down. So many players experienced this round of regulation in one way or the other. During this short period of suspension, I think we treat the ifeng news app to ensure future regulatory compliance. So now the ifeng news app is back up and running in app stores. Revenue-wise, I think this round of regulation is -- as I mentioned, the impact is limited. But we believe the increased media regulation is definitely beneficial to the whole industry by helping foster, as I mentioned in my opening remarks, a sustainable and healthier market. Especially for us, I think this -- we, as a responsible and professional media player in the market, I think this shift of regulatory tone will particularly benefit media Internet companies with rich content, with professional standards. So in the mid- to long-term run, I think it's a long good thing. MCN is definitely a very important area we are trying to explore. We have specifically selected auto sector, car sector as the first vertical area we're going to focus on. We have recruited talent to set up new team, to also set up the game plan for next year. We're going to invite more self-media players in this market. We're going to establish a consortium to help them better -- to enable us to enrich our content library, to speed up the monetization of rich content. I think the impact will be -- the good impact will materialize in the next 2 or 3 quarters. So Betty probably can answer the question about the advertising.

Yip Ho - Phoenix New Media Limited - CFO & Director

Hi, Wendy. With respect to the mobile advertising revenue, actually, for the first quarter, our growth was very good, as expected, at about 46.3%, which -- actually, you can see it was -- although it's a very slow season because of the seasonality of the Chinese New Year and the two sessions, but because of the low base in 2017 first quarter, at that time, we have not introduced our DSP programmatic buying platform yet. So as compared with the last quarter, we did very well this quarter. And looking forward, we are still expecting our mobile advertising growing at least with -- at par with industry rates at about 40%. So for the full year 2018, our mobile advertising will still be continuing as a growth driver for our advertising business.

Wendy Huang - Macquarie Research - Head of Asian Internet and Media

Okay. And just want to follow up on Yidian. So you also mentioned in the prepared remarks that with the collaboration with OPPO and Xiaomi this year, you expect Yidian's revenue to double in 2018. Can you maybe also share your view on what kind of news feed industry revenue growth do you think it would be? And in other words, will Yidian actually outgrow or grow more slowly than the whole industry?



Yip Ho - *Phoenix New Media Limited - CFO & Director*

Wendy, actually, for Yidian, we just mentioned in our prepared remarks that it did very well. Its DAU actually has increased by 25% as compared to same period last year. And also its revenue actually tripled in the first quarter of this year as compared of -- in 2017. And for the full year, we are still expecting to be at least double in terms of its revenue. So Yidian's growth is still very strong, and it actually has changed its focus to be focused on browser business. So the total number of DAU actually we can see within that, the browser DAU has increased -- had been increasing significantly. And also in addition to OPPO and Xiaomi, they have also attracted other customers to -- for Yidian to help with their browser operations. Yidian used Yidian inside, you know, Intel Inside, as their browser strategy. So moving forward, I think increasing their operation of the browsers for other handset manufacturers is one of their strategies. This is leveraging on their license because they are being granted with a license, and it's so important for them to gain credibility to operate handset manufacturers' browser. So there's a -- for Yidian, this is definitely a strong driver for their future growth.

Operator

(Operator Instructions) Our next telephone question is from Natalie Wu from CICC.

Yue Wu - *China International Capital Corporation Limited, Research Division - Analyst*

My question is mainly related to Yidian. Can you share more color on the MAU or DAU channel for Yidian? And just want to confirm that \$1 billion valuation was actually the valuation negotiated almost 2 years ago for Yidian, right? And Phoenix New Media still holds about 42% of Yidian. And also, what's your expectation for Yidian's current valuation given the industry leader Toutiao has just said that it raised its valuation to USD 35 billion, and also smaller player in this same field Qu Toutiao said to have \$2 billion to \$3 billion valuation within this year? And Shuang Liu, as you mentioned in your prepared remarks, Asia market seems to be more appropriate for Yidian. Does that mean that you will seek for chances that Yidian may be listed in Asia market?

Yip Ho - *Phoenix New Media Limited - CFO & Director*

Okay, Natalie. This is Betty. As with respect to Yidian's MAU, we actually never disclose the MAU. But for its DAU, as I said earlier, we recorded an increase of 25% year-on-year in terms of DAU for the first quarter of 2018 for Yidian. And as for the valuation, you mentioned about some other players in the market. We actually also are studying the valuation. We've concluded that their valuation is around [10 -- 15x] (corrected by company after the call) of their revenue. So we actually -- when we did Yidian round E for our \$1 billion valuation for round E in late 2016, at that time, our valuation was about...

Shuang Liu - *Phoenix New Media Limited - CEO, Director and Chairman of the Board of Yidian Zixun*

\$1 billion.

Yip Ho - *Phoenix New Media Limited - CFO & Director*

\$1 billion, which represented about 10 -- 12x of our revenue. So I think moving forward for our round F, you should -- I have given you the industry reference and our own reference. You should have a sense of what kind of rev-rec valuation that we are looking for. As for the third question, Shuang will be answering your question.

Shuang Liu - *Phoenix New Media Limited - CEO, Director and Chairman of the Board of Yidian Zixun*

Yes, let me add a few words about the -- your second question first. Actually, if you conduct a careful comparison between Yidian and other players, I think in round E, our -- the valuation, you are quite right, is at almost 2 years ago. On both user scale and revenue scale is quite smaller than our



current level. And also, the -- as you mentioned that some other players also finished financing in the last couple of months. In terms of the revenue and user scale and the policy treatment, I think we are -- we stand in a much more superior position. So we are pretty optimistic about our round F financing. As to the future listing, actually, we have -- because of the latest development in the market, China's CSRC issue, new guidance and initiatives, which particularly favor company specializing AI industry with market cap more than RMB 20 billion. So I think Yidian will pretty soon fit into that category. So it definitely open another -- give us new options. So we're going to balance all these -- the pros and cons and to decide where is the best value for our future listing. I think next 2 or 3 quarters, this will pretty clear.

Yue Wu - *China International Capital Corporation Limited, Research Division - Analyst*

Great, great. Just to confirm the shareholding, you have a 42% stake in Yidian, right?

Shuang Liu - *Phoenix New Media Limited - CEO, Director and Chairman of the Board of Yidian Zixun*

Almost -- close to 40%, actually. After closing of the round E financing, our total holding is close to 40%, 38% or 37%.

Yip Ho - *Phoenix New Media Limited - CFO & Director*

37.6% (corrected by company after the call).

Shuang Liu - *Phoenix New Media Limited - CEO, Director and Chairman of the Board of Yidian Zixun*

Yes. 37.6% (corrected by company after the call).

Operator

(Operator Instructions) And our next question is from Binbin Ding from JPMorgan.

Binbin Ding - *JP Morgan Chase & Co, Research Division - Analyst*

I have 2 here. My first question is on video. You mentioned video has been the most popular content format on your mobile app in the first quarter, so can you give us any color regarding the user or time spent contribution from view count and -- on your platform in the first quarter? Have you seen any impact from the emerging and more entertainment-oriented short video apps to your overall time spent? And also will be great if management can comment on your overall video strategy going forward. My second is on your mobile app. So for the first quarter, your mobile revenue has grown by 46 -- 64 -- 46% in the first quarter. So I was wondering if you can give us any detail regarding the drivers behind these. How much is coming through traffic? How much is coming from load increase? And coming from pricing as well? And also if management can comment on the future trend of these metrics, that would be great.

Shuang Liu - *Phoenix New Media Limited - CEO, Director and Chairman of the Board of Yidian Zixun*

Yes, this is Shuang. Actually, video is -- actually, you are quite right. It's one of the most important areas we're going to focus on. Starting from this year, based on data our users video time spent significantly. On a year-on-year basis, actually -- on a 6-month basis, it increased by 30%, so it's quite encouraging. And we are also exploring new products to explore the future opportunities and take advantage of the video trend because we are a company controlled by Phoenix TV so we have a very rich content library. Even though the -- from a regulation point of view, some sensitive current affair video may not be directly put on our platform. But the content in lifestyle, cultural and entertainment is still available, so that gives us unique competitive advantage. Entertainment is also a big trend. The users' time spent on those is also increasing. But as I mentioned in my opening remarks, we try to strike a balance among users' experience because video will definitely increase the users' time spent but not necessarily



increase the -- not necessarily increase retention rate. So there's a delicate conflict. So we want to, not only inform our users but also entertain our users. But beyond that, we want to provide them with quality viewing experience. So we want to strike balance between the time-sensitive news and non-time-sensitive information. Between the video and click-through-oriented content and also between -- also the quality, premium content. So we not only increase our users' time spent but also increased retention rate. So it's not rocket science, it's art. And that's something I think we are very good at. By sticking to this -- by trying to strike a balance between this, I think we will further increase our brand awareness, we'll increase our user retention rate and boost users' time spent. Betty, you can probably...

Yip Ho - *Phoenix New Media Limited - CFO & Director*

Yes. Hi, Binbin. Let me address to your second question. As for our mobile advertising revenue, you mentioned that we did very well in the first quarter and why was that? It was mainly due to the -- as I mentioned earlier, we had a very low base in 2017 because during the first quarter of 2017, we haven't started the DSP yet. And for the first quarter of 2018, actually, the growth driver is still being the mobile advertising revenue. And it actually has exceeded over 65%. It has reached 67% as total advertising revenue. And for the full year, we are expecting it to be increased to over 70%. So the portion of the mobile advertising revenue actually exceeded -- far exceeded the PC revenue already. So we actually offset the decreasing of the PC revenue. And also -- the driver also because of the number of customers, number of advertisers we had. During the first quarter of 2018, a number of advertisers have increased by 130%. So we see our client base actually has been expanded significantly. And although the ECPM remain about the same as the previous quarter -- because as I've said, if we are comparing the first quarter of 2017, it hasn't started yet. That's the driver for our mobile advertising. We are expecting it continues to grow strongly, at least with -- at par with industry at about 40%.

Operator

Looks like there's no more further questions at this time. I'd like to hand the call to the speakers for any continued remarks. Please continue.

Nicole Shan

Thank you, operator.

We have come to the end of our Q&A session and our conference call. Please feel free to contact us if you have further questions.

Thank you for joining us on this call. Have a good day.

Yip Ho - *Phoenix New Media Limited - CFO & Director*

Thank you. Bye.

Shuang Liu - *Phoenix New Media Limited - CEO, Director and Chairman of the Board of Yidian Zixun*

Thank you.

Operator

Ladies and gentlemen, thank you for participating. You may all disconnect. Goodbye.



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