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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by for Autohome's Fourth Quarter and Full Year 2019 Earnings Conference Call. (Operator Instructions)

As a reminder, this conference call is being recorded. (Operator Instructions)

It is now my pleasure to introduce your host, Anita Chen, Autohome's IR Director. Ms. Chen, you may begin.

Anita Chen - Autohome Inc. - Head of IR

Thank you, operator. Hello, everyone, and welcome to Autohome's Fourth Quarter and Full Year 2019 Earnings Conference Call. Earlier today, Autohome distributed its earnings press release, and you may find a copy on the company's website at www.autohome.com.cn.

On today's call, we have Chairman and CEO, Mr. Lu; Co-President, Mr. Haifeng Shao; co-President, Mr. Jingyu Zhang; and CFO, Mr. Jun Zou. After their prepared remarks, Mr. Lu, Mr. Shao, Mr. Zhang and Mr. Zou will be available to answer your questions.

Before we begin, please note that the discussion today will contain forward-looking statements based under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from our current expectations. Potential risks and uncertainties include, but are not limited to, those outlined in our public filings with the Securities and Exchange Commission. Autohome does not undertake any obligation to update any forward-looking statements except as required under applicable law.

The earnings press release in this call also includes discussions of current unaudited non-GAAP financial measures. Our press release contains a reconciliation of the non-GAAP measures to the most directly comparable GAAP measures and is available on Autohome's IR website.

As a reminder, this conference is being recorded. In addition, a live and archived webcast of this earnings conference call will also be available on Autohome's IR website.



I will now turn the call over to Autohome's Chairman and CEO, Mr. Lu.

Min Lu - *Autohome Inc. - Chairman & CEO*

Thank you, Anita. Hello, everyone. Thank you for joining us today.

2019 has proven to be a tough year for the auto industry in China as both sales and profit shrink. Total passenger vehicle sales dropped by 10% year-over-year according to CAAM. The weakening macro conditions in China have made the auto-related sector even more difficult.

Despite these challenges, we delivered record total revenues of RMB 8.42 billion in 2019, an increase of 16.4% year-over-year. Autohome finished the year profitable and maintained a solid growth momentum. Notably, revenue contribution from new initiatives increased to 18% in 2019 from 12% in 2018.

Over the past year, Autohome accelerate its transition towards an intelligent auto ecosystem. Through continuously upgrading our technology and bringing to the market new product innovations, we are building up data solutions spanning the entire car ownership life cycle. Autohome's products and offerings are deeply embedded into the industry's value chain and are providing solid value to a broad spectrum of industry participants. In December 2019, the number of average DAUs who accessed our mobile websites, primary application and mini apps increased by 25% year-over-year to 36.8 million.

On the content front, we continue to make progress in enhancing our user experience, attracting advertisers and promoting the positive development of the platform's services. For example, customize the content and IP campaigns on our road trip channel helped to further diversify our content portfolio as viewers peaked over 3 million in December. Total GMV generated from the road trip channel exceeded RMB 100 million mark in 2019, setting the stage for a brand-new era of monetization from [CN] for our users.

I would next like to highlight our data business, which achieved the rapid breakthroughs in 2019. On the one hand, we consistently introduced new products one after another. And on the other hand, we also focused on enhancing the market penetration of our data products. We achieved positive progress on both of these fronts.

With a broadened array of data products available for our partners, we are creating more values for the auto industry. In 2019, 36 automakers purchased our data product offerings. Our intelligent R&D or Che Zhi Ku not only assists in shortening the auto R&D cycle but also provides a platform where automakers can interact with the users.

Our Intelligent New Car Launch is another product that we are very proud of. Since its launch in mid-2019, 13 automakers have signed up to the program, driving average total market awareness increasing by over 70%. We plan to extend these offerings to more automakers in 2020. In 2019, 43 automakers in total had signed with us for intelligent marketing solutions projects.

Our data products were also popular among dealers. Introduced in mid-2019, Smart [Call-out] has been well received with a repurchase rate of over 60%. In 2019, over 17,000 dealers purchased our data products. For the year 2020, we will continue to develop more data solutions aiming to support the dealers' digital transformation.

Now let me provide some highlights on our business operations. For our lead generation business in the fourth quarter, the number of paying dealers was over 24,000. For 2019, total organic leads volume increased by 20% year-over-year. Organic leads as a percentage of total leads increased significantly as compared with 2018.

As for our used car C2B2C platform, by the end of 2019, over 5,800 qualified dealers have used our merchant loan products, resulting in a total loan borrowing volume of roughly RMB 16.8 billion. I would also like to mention that the total number of used car transactions reached over 100,000 in 2019. Finally, for the auto financing business, we facilitated close to RMB 24 billion in loans and insurance in 2019, representing a 52% increase year-over-year.

Lastly, I'd like to highlight that we are closely monitoring the development of the ongoing novel coronavirus outbreak in China and evaluating its impact on our business. Containment measures such as travel restriction and extended holidays interrupt the normal operations of automakers and the dealers. Therefore, we expect a short-term pressure on our traditional business as a result of a delayed marketing demand.

For support our customers, we launched the series of measures, including waiving membership fees, free use of our new data tools for customers in some heavily impacted regions in February and offering free comprehensive insurance to our dealers, partners, employees through cooperating -- cooperation with the Ping An. We also see additional demand for online and the data service due to the current market conditions. To maintain business operations under the government's quarantine procedures, Internet and online capabilities have become more critical than ever. Our proprietary and the diverse online product portfolios, such as online auto show, Smart Call-out and the other new end products and tools which are ready to launch, will fulfill the service requirements of our users and advertisers.

To conclude, although we face big challenges and rapid changes to the automobile industry, we believe our leading big data technology and the cohesive team will ensure our success in the years to come.

With that, I will now turn the call over to our CFO, Jun Zou, for a closer look at our fourth quarter and full year 2019 financial results as well as business outlook for the first quarter of 2020.

Jun Zou - Autohome Inc. - CFO

Thank you, Min. Hi, everyone.

As Min has already highlighted, we are pleased to report a solid Q4 and fiscal year 2019. Please note that with -- as with prior calls, I will reference RMB only in my discussion today.

Net revenues for the fourth quarter was CNY 2.33 billion, representing a 6.5% year-over-year increase. For a detailed breakdown, media services revenue reached CNY 1.06 billion and lead generation services revenue were CNY 824 million. Online marketplaces and others revenue increased by 42.6% year-over-year to CNY 448 million primarily due to the increased contribution from the data business.

Now moving on to the costs. Cost of revenue increased by 6% year-over-year to CNY 265 million. Gross margin remained stable at 89% in the fourth quarter.

Now for operating expenses, sales and marketing expenses in the fourth quarter were CNY 735 million compared to CNY 773 million in Q4 of last year. Product development expenses were CNY 300 million compared to CNY 296 million in Q4 of 2018. Finally, general and administrative expenses were CNY 60 million compared to CNY 65 million in Q4 2018.

Overall, we delivered an operating profit of CNY 1.1 billion for the fourth quarter compared to CNY 899 million in the corresponding period of 2018. Adjusted net income attributed to Autohome Inc. was CNY 1.15 billion for the fourth quarter compared to CNY 1.08 billion in the corresponding period of 2018. Non-GAAP basic and diluted earnings per share/per ADS for the fourth quarter were RMB 9.67 and RMB 9.62, respectively, compared to RMB 9.12 and RMB 9.03, respectively, in the corresponding period of 2018.

Let me now turn to a short summary of our 2019 full year results. We continued to drive growth in revenue, which increased by 16.4% year-over-year to CNY 8.42 billion. Media services revenue increased by 4.1% on a year-over-year basis to CNY 3.65 billion. Lead generation services revenue increased by 14.1% year-over-year to CNY 3.28 billion. And online marketplace and others revenue increased by 75% year-over-year to CNY 1.49 billion. In addition, we delivered an adjusted net income of CNY 3.41 billion, representing a 10% -- 10.7% year-over-year growth. As of December 31, 2019, our balance sheet remained very strong with cash, cash equivalents and short-term investments of CNY 12.8 billion. We generated operating cash flow of CNY 2.89 billion in 2019.



I'm very pleased to announce that our Board of Directors has approved a cash dividend of approximately \$0.77 per ordinary share or \$0.77 per ADS. Considering our large cash position, we're confident that this dividend will generate increased value for our shareholders. Following this dividend payment, we'll have ample capital resources to invest in our businesses and further strengthen our leadership position going forward.

Let me now address our first quarter 2020 outlook, which reflects our current and preliminary view on market operating conditions and may be subject to change. At this point, we expect to generate net revenues in the range of RMB 1.530 billion to RMB 1.580 billion.

Looking back at 2019, I'm pleased with the progress we have made throughout the year. Despite challenging operating conditions, we managed to deliver steady revenue growth and profitable returns.

Looking into 2020, we will continue to invest in key initiatives in order to strengthen our long-term competitiveness while increasing our operational efficiency and keeping a streamlined cost structure.

With that, we're ready to take your questions. Operator, please open the line for Q&A.

QUESTIONS AND ANSWERS

Operator

We will now begin our question-and-answer sections. (Operator Instructions) Our first question is Eddy Wang from Morgan Stanley.

Eddy Wang - Morgan Stanley, Research Division - Research Analyst

(foreign language) My question is about the cost control side. So if I look at our fourth quarter results, sales and marketing expense is controlled quite well. So as you mentioned that because of the impact of the coronavirus, it will impact overall the auto sales in China in the -- maybe in the midterm. So if in that case, what kind of cost control methods we can still take in 2020? And how the outlook of our overall the margin level in 2020?

Min Lu - Autohome Inc. - Chairman & CEO

[Interpreted] Well, thank you for your question. For these past 2 years, as you know, the China auto market is not performing very well. And this year, especially after the break -- outbreak of the novel coronavirus epidemic, this has a great impact on the auto market.

Well, for Autohome, this is the very first time we encountered such situation. So that's why we take very strict control over the expenses. (foreign language)

Jun Zou - Autohome Inc. - CFO

I'm Zou. Eddy. Yes. You know that in the last 3 years, Autohome has always been very focused on controlling costs, to optimize costs on traditional businesses while we still continue to spend on new business investment. And in the fourth quarter, we again actually optimized our spending in off-line activities and off-line campaigns, and we also optimized our investment in new businesses, and we also actually optimized our headcount. So overall, I guess, this will be our continued efforts into 2020, our continued efforts to deliver better value to our shareholders. So Eddy?

Operator

Our next question is Miranda Zhuang, BoA.



Xiaomeng Zhuang - BofA Merrill Lynch, Research Division - Associate

(foreign language) So I would like to get your outlook on the recovery of the core business post coronavirus issue. So the first aspect is about the timing. When do you think Autohome's core business will recover to normal? Will it be earlier, the same time or later than the end of this coronavirus issue? And the second aspect is about the degree of the recovery. So for the loss of advertising and leads generation revenue in 1Q due to the impact, how much do you think that can be recovered in 2Q or the rest of the year? Are there any reasons that will prevent us to see a V-shape rebound of the core business in 2020?

Min Lu - Autohome Inc. - Chairman & CEO

[Interpreted] Thank you -- yes, thank you for the questions. So thank you for the question. First of all, how long would this coronavirus epidemic affect the business? It's hard to tell. But definitely, Q1 would be impacted, especially in February. If you look at the sales, the sales number should be very low.

However, just because of this epidemic, a lot of general public believe purchasing of private cars is really necessary. So that's why people's intention and willingness to purchase cars has been high. We have conducted a survey together with a third party, which the results tell us 85% of the surveyees told us they want to purchase private cars.

And recently, President Xi made a speech telling people that here, the government would like to support the auto business. And also, some of the cities is called on to release or free the restricted purchasing policies. And the Foshan government had made announcement that if people purchase car, they would receive around CNY 2,000 to up to RMB 5,000 bonus for purchasing a car. So my judgment is that after the outbreak of this novel coronavirus epidemic, there would be a rebound or bounce back of the business in auto market. Well, so that's my first point.

My second point is, as there is old Chinese saying which says, "Usually it's the ducks, who swim in the water, understand the springs are coming because the water has become warmer." So we are in the Internet business, and Internet business is like the early bird who can get a sense of how the market evolves. We do see a lot of dealings on the Internet for purchasing cars, so that's why we do have an early sense of the market situation. So to answer your question, Autohome would be the early bird who can sense the warmth of the market before the market or the epidemic concludes.

Now my third point is for the automakers, their priority is to bump up its sales. They need to bring up its sales. Upon this period of time, the branding and other marketing, they are not as important as bumping up the sales because if they boost up the sales, that would bring benefits to the upper stream as well as the downstream. So I believe some of the automakers, before the sales would bump up -- pump up, they would make some investment on the Internet before they can see the sales boost up -- in order to boost up their sales. That's all of my comments.

Haifeng Shao - Autohome Inc. - Co-President

[Interpreted] [Extra comments from Mr. Shao Haifeng.] So first of all, not only the dealers but also the automakers, they had more and more realized that online marketing is really important. So that's why we do see a lot of the resources for the gather and the cluster at the top media on the Internet. So the top players would benefit out of the whole situation.

Secondly, we do see some budgeting values would have moved from off-line to online. That would benefit the online media players like Autohome. So I believe that the automakers would make the investment on Internet and -- before they can see the sales go up. And that would help us to boost up the sales.

Operator

Our next question is Thomas Chong, Jefferies.



Thomas Chong - Jefferies LLC, Research Division - Equity Analyst

(foreign language) Congratulate on a solid set of results. My question is about our new product offerings. Given that a OEM is going to make investments to embrace a couple of big trends, the management here, what are the new products that you have to watch out in the upcoming few quarters? And any feedback from clients would be great.

And secondly, can management comment about our overseas strategies? Any update on that front would be great.

Min Lu - Autohome Inc. - Chairman & CEO

[Interpreted] Excuse me. Yes. Thank you for your question. In terms of our new product offering, as you understand, we do have our traditional business. For example, the media advertising business. We do have new business. For example, the data business and the financial products. We also have launched 2 new products, which is online transaction-based and C2C fee-based business. .

Actually, for the online transaction, we already started exploration at the end of last year. End of last year, we already launched our e-commerce platform, which already we collide with this e-commerce platform. .

So that C2C-based fee (sic) [fee based] business model, we have launched our tourism-based business. Our target is to make CNY 50 million, 5-0, CNY 50 million sales. But actually, we generated more than CNY 100 million, over CNY 100 million sales. That's purely through fee model. So in terms of the 2C business opportunities, we are going to launch the new membership fee-based model as well as some fee-based model on the e-commerce platform. So we would have a greater 2C business model as well.

And one of our key priority is our data products. I would like to invite Mr. Jingyu to explore more on this.

Jingyu Zhang - Autohome Inc. - Co-President

[Interpreted] Now talking about our data product, we do have overall strategy, which is know early, sense early and move early. We want to be early mover in the data business.

For example, in terms of the Intelligent New Car Launch business, we already launched the virtual new car launch online, which the OEMs can launch the new car models online. It's all virtual-based. And we also have the dealer-side product. For example, we want to establish the data-driven close cycle for the dealer intelligent business and the leads generation business. We want to enhance the conversion rate on the leads generation business for the dealers.

Min Lu - Autohome Inc. - Chairman & CEO

[Interpreted] Okay. Thank you for the question. I would like to elaborate more on our strategy, which is know early, sense early and move early.

Our strategy is to help our OEMs and the dealers to make fully automated intelligence. For example, they would have to know early. What does know early mean? It means we would help our customers to understand the strategy, understand the momentum and understand the market situation. So in this way, they would know early than the market.

Now talking about sense early. After our car customers understand that they know early, they know what are the momentum and the problems are, and then we will help them to analyze what are the problems. What are the root causes for those problems? For example, if they are lagging behind some of their competitor, so what made them lagging behind? What should they have done to make it up to catch up with the competitor? So we would elaborate more on this.



Now talking about move early. Actually, we have big data to help our customers to understand what are the next, like, for example, 2- to 3-month momentum, what are they lagging behind and what should they do better to catch up or even beyond -- go beyond their competitors. That is, we automatically offer them solutions. We will tell them what to do. So that is move early. We will help them with total solutions to help them to understand what are the problems and how to address those problems.

This year, we are going to offer abundant and enriched data products. And our overall strategy would be the 3 earlies: know early, sense early and move early. We are going to upgrade our data products surrounding this strategy. And thank you for your great questions.

Operator

Next question is Hillman Chan from Citi.

Hillman Chan - Citigroup Inc, Research Division - Research Analyst

(foreign language) And to follow up more specifically on the data product question previously, could management share more on the time line of the launches of data products for the OEMs and dealers as well as more details on the ASP and the potential penetration into our customer base? I wish you all good health.

Min Lu - Autohome Inc. - Chairman & CEO

[Interpreted] Well, thank you for the question. I will let Mr. Jingyu take some of your questions, and I would like to make some comments.

In terms of the data products, we do have the old products as well as new offerings. For example, we offer the products covering the OEMs, R&D, marketing to quality control, et cetera. So the pricing strategy is different. It varies from product to product. For some of the products, we have the benchmark price plus extra charge. We also have some other benchmark prices for other products. A lot of our product offerings are only offered by Autohome. So there are no other similar offerings in the market. But no matter what, we want to be close to the market and make our price close to our customers. So that's why all of our product offerings are quite reasonable.

Jingyu?

Jingyu Zhang - Autohome Inc. - Co-President

[Interpreted] Well -- yes, thank you for the questions. Now let's share with you some of our momentum of our data products. Let's take intelligent marketing solutions as example. Till the end of last year, we already have 36 OEMs already participated in this product. And this year, we're expecting more OEMs to prescribe our product because the acceptance rate of such product in the market has been very high.

Min Lu - Autohome Inc. - Chairman & CEO

(foreign language)

Jingyu Zhang - Autohome Inc. - Co-President

[Interpreted] Now let's talk about our Intelligent New Car Launch product. After we upgraded this product, the market has been warmly embracing this product. The acceptance rate among the customers are really high. We believe that before Q3, we would enjoy high penetration rate in the market because this Intelligent New Car Launch product is greatly and straightly linked with the revenue of the OEM.

Now talking about the dealer data product, we already have 17,000 dealers, 17,000 dealers who embrace our products. So we believe the penetration rate is already high enough. So I believe the future focus would be to widen and expand the dealer solution coverage.

Operator

Next question is Frank Chen, Macquarie.

Zhenyu Chen - Macquarie Research - Analyst

(foreign language) Congratulations on very strong 4Q results. I have only one question. My question is, after China recover from coronavirus and everything gets back to order, what's your plan or strategy on your promotion campaign this year? And what's your budget on that?

Min Lu - Autohome Inc. - Chairman & CEO

[Interpreted] Well, thank you for the question. Actually, we do have plans for the promotion campaign. We already had invested in the promotion campaign with CCTV, and we invited Mr. Fan Zhendong, who is a world champion, to become our ambassador. And we put marketing dollars on CCTV-5, which is a sports channel. Why we pick CCTV-5 is because it is a sports channel and the major audience are male audience. And also, our major audience for Autohome, the web, is also male. So that's why we worked with CCTV-5 for about 2 years now.

However, starting from this year, because Mr. Fan Zhendong is a military athlete, and according to the new regulations, military athletes can no longer become commercial ambassadors. So that's why we switched to Madame Zhu Ting, who is a major spiker on the Chinese women volleyball team, national volleyball team. She's also a world champion. Because as you know, this year is Olympic year, there are Olympic games holding this year, we will continue to put commercial advertisement with the central television, the CCTV.

And we put the -- our commercials really very precise and simple because we want to address those audience in the lower-tier cities, including Tier 3, Tier 4 and Tier 5 cities. So Autohome, we really have great impact on Tier 1 and the Tier 2, the major cities.

Now talking about the budget, we believe the 3 -- next 3 years, the budget would be flat. We believe the current budget can already fulfill our plans. Actually, 2 years ago, before we launched the TV commercial ads, some of the investors had concerns and they asked us, "Are we going to spend a lot of dollars on the TV ads just like the used car dealers?" Actually, the answer is no. We used to spend some money in procuring traffic from external resources. But we compressed that portion of budget, and we moved some of those traffic procurement budget into the TV commercial budget.

So overall speaking, we doesn't increase our budget. We just reallocated some of the budgeting dollars.

Okay. Thank you very much. That's all of my answers.

Operator

Our next question is Tina Long, Crédit Suisse.

Yuanyuan Long - Crédit Suisse AG, Research Division - Co-Head of China Internet

(foreign language) So my question, first one is regarding the cash flow for dealers, especially those small to medium-sized dealers, if there's any observation on any risk on the cash flow, and also management's assessment on the potential numbers decline in terms of dealers for the full year.

And secondly is on the selling/marketing expense ratio outlook for the full year.



Min Lu - Autohome Inc. - Chairman & CEO

[Interpreted] Thank you for your question. I will invite the CFO, Mr. Zou Jun, to address your next question. I will take the first one.

Now talking about the dealers. As you know, the dealers would receive a lot of pressure for the stocks because if they have high stock, they do have the pressure. If you look at the January and February numbers, January and February, the sales are quite weak. So they do have the stock pressure, inventory pressure. We do see the dealers would have the cash flow pressure because if they want to do the de-inventory. However, if there are no visits to their store but they still have to pay the rental and they still have to pay the salary to the workers. So that's why they do have the cash flow problem. We do see the automakers, OEMs as well as us offer some special policy to help those dealers. However, the key is the dealers have to boost up their sales. If their sales number doesn't go up, that would not stop the fundamental problem.

In terms of the SME dealers, we believe that they are under excessive pressure. So that's why I understand that there should be some dealers maybe get driven out of this market. But I don't know how many of them, and it's hard to make estimation of how many of them. But there are some hope or silver lining out of the darkness. For example, in -- outside of Hubei province, the new cases, the numbers are decreasing. And also, we do see the hopes of seeing the new cases are dropping nationwide. So that's our best wishes.

(foreign language)

Jun Zou - Autohome Inc. - CFO

Tina, I guess this year, we will still no efforts to contain our costs in sales, marketing and other operating expenses. And of course, we'll still invest very prudently on new businesses just to make sure that we'll have future growth opportunities. And we also are determine to actually improve our long-term margin trend to pay back our shareholders in the long term. Thank you. That's my answer.

Operator

Thank you. It is the end of our question-and-answer section. Now I'll turn back the call to the management for closing comments.

Min Lu - Autohome Inc. - Chairman & CEO

Okay. Thank you very much for joining us today. We appreciate your support, and we look forward to updating you on our next quarter's conference call in a few months' time. In the meantime, please feel free to get in touch with us if you have further questions or comments. Thank you.

[Portions of this transcript that are marked [Interpreted] were spoken by an interpreter present on the live call.]

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