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VZ - Verizon Communications Inc at JPMorgan Technology, Media and Telecom Conference

EVENT DATE/TIME: MAY 24, 2016 / 12:00PM GMT



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PRESENTATION

Jennifer Nason - *JPMorgan - Analyst*

Good morning, everybody. I'm Jennifer Nason. I'm happy to kick off day two of the conference today so welcome everybody.

And our first keynote speaker for this morning is Lowell McAdam, Chairman and CEO of Verizon Communications. So today Verizon has a market cap in excess of \$200 billion, revenue of \$130 billion plus, 177,000 people and it operates primarily in the broadband and mobile space.

Lowell became CEO in August of 2011, Chairman in January 2012 and prior to that was Verizon's President and COO. If you read his bio, which is printed in the materials that we have for everyone, it says that Lowell has been one of the architects of today's global wireless industry, having built wireless businesses on three continents since the technology was first available in the 1980s. And this is true.

He was President and CEO of Verizon Wireless from 2007 to 2010 and before that was Executive Vice President and COO of Verizon Wireless. Before that he ran the original AirTouch business. So Lowell is regarded as a great operator, but he is also a great technologist with a very clear vision of where technology, especially mobile technology, is going. And he has spearheaded Verizon's push into new growth markets in IoT and in mobile entertainment.

So please join me in welcoming Lowell McAdam.

Phil Cusick - *JPMorgan - Analyst*

So thank you for coming, Lowell. Nice to see you.

My name is Phil Cusick. I cover the telecom and cable space at JPMorgan. Thank you again for coming.

I was thinking this morning about our conversation recently --

Lowell McAdam - *Verizon Communications Inc. - Chairman & CEO*

In the gym?

Phil Cusick - *JPMorgan - Analyst*

In the gym. I was thinking this morning about our conversation last night.

And since we're in Boston and you just announced Fios expansion here I was thinking about the different layers of connectivity, whether it's fiber or wireless or 5G. Can you just talk about your overall sort of connectivity strategy and how they all flow together, in particular around the Boston effort?



Lowell McAdam - *Verizon Communications Inc. - Chairman & CEO*

Yes, thanks Phil and Jennifer. Thank you for that introduction.

And good morning everyone. I appreciate your interest in Verizon and I hope you're enjoying the rainy Boston day.

So we talk a lot, Phil, about our three-tiered strategy and I'll focus on the bottom layer for us which is the connectivity layer. For those of you that aren't familiar with that, the layers above that are what we call the platforms that we want to be very strong contributors in, and then the applications or the solutions that ride on those platforms where we want to be a player but not necessarily dominant.

The connectivity layer is where we feel we need to be dominant. As I look across my career, you can't be good at the upper-stack things if you aren't the best at the connectivity layer. I think we've shown with our Fios platform and with our wireless platform, and we have a campaign, ad campaign running now, Better Matters to customers.

Whether you look at your ability to have pricing power, whether you look at your loyalty numbers which are very strong for us and always been very strong, being at that leading edge of technology opens up a lot of doors and helps you take care of customers. So that's why we feel as strongly as we do.

Now, Boston is a good example but I'll take you back one step prior to Boston. And that is what we did at the Super Bowl this year in San Francisco. We went out and drove fiber very what we call very deep into the network to get the fiber nodes close to the customer and then we deployed small cell technology to deliver very high speeds.

So any of you that were at the Super Bowl if you were down on Market Street when they were doing the concerts in the evening, Verizon was consistently delivering 60, 70 megabits of throughput and you saw lots of people streaming videos of the concert. Other carriers were running sub-10, some of them their networks were completely blocked. And you heard the usual buzz about the Verizon phone was the one that worked.

So that informed our decision around Boston. And I have to, since we're in town here, I have to compliment Mayor Walsh and his chief of staff Dan Koh because the past administration here wanted the sort of buildout that we have done in other areas. You build everywhere and then you go in and you try to get penetration.

They were more willing to help us get right of way, help us push fiber out into the neighborhoods, do more pre-subscription a la the Google model. And so what that does for us, that gives us the ability to densify our network for 4G. It gives us the ability to deal with enterprise customers that may want a fiber into their home, into their business or a small business that might want fiber into their business and it sets us up for 5G, which I'm sure we will talk about, where that gives us the ability to do the last, whatever, we will call it the last mile, it is probably not a mile, but the last distance into a home and provide either broadband, over-the-top video or streaming video over one architecture.

Now, just to give you the three tier, come back to the three tier, just for a second, in the city of Boston we're already working with the city on how you do smart transportation, how you control the electric grid. If somebody wants a parking spot directing them there with map technology.

It's all of the smart city things that we've probably been talking about for a decade. So I think a combination of some new spectrum available, fiber being able to handle the capacity, small cell technology is coming together to create a richness and a robustness of the network that I've never seen in my career.

Phil Cusick - *JPMorgan - Analyst*

So first, how does the consumer experience this?



Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Well, in a couple of levels. First, and we talked about this publicly, you will be able to see very high speeds over wireless. So the San Francisco example, typical network today delivers maybe 10 megabits and we were able to deliver 65 just by getting very close to the customer managing spectrum differently.

If you look at 5G in a fixed wireless environment we've demonstrated for some of our shareholders in our Basking Ridge facility putting 1.8 gigs into the house without a wire. If you think about that from a customer's perspective, if I can do that then virtual reality, all the other things, 3D videoconferencing, the whole nine yards that we all grew up watching in Star Wars actually might happen. So I think that's what the consumer is going to see.

The key for us, and I think the rest of the industry, is making that a user experience that customers really enjoy. So whether they are on WiFi, whether they are on LTE unlicensed, whether on 3G or 4G or 5G or whether they want to move back and forth between the fiber in their home or business and the wireless device, that's where the magic is going to occur and you're seeing a lot of companies working on that today. So I think it's doable.

Phil Cusick - JPMorgan - Analyst

So you talk about 5G and getting fiber close to the customer. How does that lead into my ability to use it, my ability to run video either to a handset or to a fixed location?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Well, in the example of our Basking Ridge campus we had I think six 4K TVs running. We had three virtual reality boxes. We had a bunch of tablets running and you could move the service back and forth pretty easily between any of those devices.

So I think for a customer they don't have to think about it. I think that's the key.

One thing we've already tried to do is not have the customer think about their technology. And I think this connectivity layer that's being created right now will take that completely out of their mind. They will all be focused on the experience and the content that they want to have.

Phil Cusick - JPMorgan - Analyst

And what about on the business side? As you get fiber closer to the customer and consumers, do you start to drive fiber further into businesses as well?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Yes, no question. I think the problem that the telcos have had is a DSL service is really not going to keep up with DOCSIS and so we've had to do fiber and fiber is expensive for all of us. So if you think about it, if I can get within say 1,000 meters of a business and I give them a router, a basic router that has a 5G service inside it, and I'm up and operating immediately, I mean think about the difference for the carrier and the cost structure.

Half of our cost to establish high-speed data, whether it's consumer or business, is inside the four walls of the business. Once you go wireless you don't have to run co-ax, you don't have to do any of those high labor-intensive activities.

So you light up service overnight. Then you get into how much capacity do you want and the pricing models can change dramatically.

Phil Cusick - *JPMorgan - Analyst*

So video you support on the Fios side, you're getting into it on the wireless side. How important is video either as a paid service or as a free service for Verizon and how does that affect your Company over time?

Lowell McAdam - *Verizon Communications Inc. - Chairman & CEO*

So I mean there's no secret, video has been a major strategic move for us. Obviously Fios has been delivering TV and broadband. By the way, broadband now, as we expected, is starting to outsell TV by a significant margin.

We've introduced this year our custom TV bundles or the skinny bundles. Those have been consistently about 40% of our sales, so customers clearly want that.

The far and away the largest driver of traffic on a mobile network is video at this point. And we're seeing it grow, in the big data streams growing 50% year over year. I saw a study just out this week that said that video has doubled year over year across the broader telecom networks.

That's very consistent with what we see. So our strategic move -- Ivan did the Fios move, but what we've done now through our go90 product was buy some IPTV platforms from Intel, OnCue, we've turned that into a go90 product. So we've got a very strong platform in place and now you've seen us start to buy some specific content.

So we had the NFL. This is our first end of the first season of our NBA franchise, doing a lot with the NBA to bring that content to the mobile device.

And we have now done some things with Hearst Corporation, with DreamWorks and AwesomenessTV to bring things that are more targeted toward millennials who are using the phone as their major -- the phone and the tablet as their major source for watching video. So we've, again getting back to the three tier, we've built the network to deliver it. We've now got platforms in place to deliver it and we're doing some content to help fuel that whole video engine.

Phil Cusick - *JPMorgan - Analyst*

How do you drive scale in that content? Do you need to buy it? Can you work with partners? All of the above?

Lowell McAdam - *Verizon Communications Inc. - Chairman & CEO*

The one thing that I try to think about is core competency. And I'd put our team up against anybody in the world on the network side. As you go up into platforms and things like content, it's not exactly our strong suit.

So finding companies like Hearst has been great for us, DreamWorks with Jeffrey Katzenberg. We're partnering with some of the networks, CBS is an example in a big way. So I think we want to crawl, walk and then run and so I don't, those of you I know your question is are we going to buy a big network company --

Phil Cusick - *JPMorgan - Analyst*

I can't ask that question.

Lowell McAdam - *Verizon Communications Inc. - Chairman & CEO*

We're not doing that. I don't think we need to do that. And it's similar, Phil, in my view to physical distribution.



We have somewhere in the neighborhood of 30,000 outlets for our service. We have 2,000 and those that we own.

So by owning those, making those a cornerstone, you can really influence the broader distribution market and we do those through partners. I think content is a very similar strategy for us.

Phil Cusick - *JPMorgan - Analyst*

I think go90 when we were here two years ago was starting to get buzz and it feels like the buzz got a little bit too far. How do you think about go90 in terms of success from what you expected over the last couple of years?

Lowell McAdam - *Verizon Communications Inc. - Chairman & CEO*

I think we had always internally viewed go90 as what we call patient money inside the business that we knew, because it wasn't our core competency, we knew we were going to have to build slowly in this area. And the way I would characterize it, we have seen enough success to make us excited about continuing to work it. But we didn't believe, and I think it did get a little bit overhyped and I'm sure we contributed to that to a certain extent, but we didn't believe that it was going to move the needle on \$130 billion revenue stream overnight.

It was one of those things you have to work into. We're on pace. When we first rolled it we didn't think we were going to do AOL or at least that wasn't on the radar.

Not we've done AOL and we start to see the synergies between a go90 and the video content and frankly our other platforms and what we can do with AOL. So we will build on that. And I think as we get more comfortable with AwesomenessTV and some of the other things that we're doing we will build on that.

So bottom line is go90 is in a good spot from our perspective. We're going to continue to pursue it but our expectations are realistic.

Phil Cusick - *JPMorgan - Analyst*

Let's dig a little bit more into AOL. They have been posting record numbers. What's been driving the success there and how big can that get over time for the Company?

Lowell McAdam - *Verizon Communications Inc. - Chairman & CEO*

Well, the theory of the case for us was that if you had -- if you believe that mobile is going to be the viewing choice for the millennials as they go through the Internet and video, then having again those platforms that would help drive traffic on the network were critical. And Tim and I first started talking about this as a commercial relationship and as we started to see how you could use his assets and our assets, we used to say 2 plus 2 should at least equal 6, we started to say this really belongs more inside the family. And if you look at their performance I think we had a very good fourth quarter.

It was up \$300 million over third quarter for them and then first quarter was their best quarter in five years. So that's kind of working. So this is one of those things you start to build scale around the content piece and around the eyeballs and the platforms.

So we're doing that organically now. First quarter we bought Millennial Media, that adds a little bit more to the ad tech stack for Tim. And we can't talk about Yahoo, but that's a possibility to gain greater scale.

There's also lots of other options to gain greater scale. So I think for both of these video and the Internet properties - let's feed them at the right pace, you can feed them too fast and you can feed them too slow, so we're going to try to find the right pace and I think it can be pretty big.



Now Tim's put some pretty wild numbers out there and I love those audacious goals, as they say, and we're going to support him to get there. But how big it is, I think it can be meaningful even to a \$130 billion revenue business.

Phil Cusick - *JPMorgan - Analyst*

So that was where I was going to go next. You have got 110 million postpaid wireless customers. Go90 is nice, takes a while to have an impact.

IoT you mentioned. At what point do all these things come together and actually start to have a material impact on the business and start to drive the revenue growth of the Company faster?

Lowell McAdam - *Verizon Communications Inc. - Chairman & CEO*

Well, it's going to be a little difficult to point to a specific time when, quote, it's meaningful. I think it's one of those things that it's just going to continue to grow and continue to grow.

We have arguments inside the business, does IoT and go90 contribute to our churn improvements year over year? Does IoT and go90 get people to buy up in higher data bundles even if they do have our FreeBee Data service?

So, we've been talking about IoT, I think we talked about this a little bit at dinner last night, back in the late 1980s when I started to get involved in cellular we used to talk about IoT being a huge revenue driver. I finally think we're on the cusp of that. But in the meantime the industry has exploded.

So meaningful, I think two or three years out from now we will be able to point to a significant revenue stream. But I'd also tell you it's not bad to sit here right now and say we paid \$4.4 billion for AOL a year ago and now they had the best year in five years. That's good progress.

Phil Cusick - *JPMorgan - Analyst*

So we had a couple of your competitors here yesterday, we will have another one this afternoon, and the theme as has been for a long time is this is the year we're really going to go after Verizon. And partly I think it comes from the industry is in a slow, it seems like an a slow period where we're waiting for these other revenue streams to start to come on and postpaid has been fairly stagnant.

Do you feel like that we're in an air pocket for the industry overall and that there's more growth overall in wireless coming? Or do you think this is sort of the natural pace of industry growth where we are today?

Lowell McAdam - *Verizon Communications Inc. - Chairman & CEO*

Well, as Jennifer said I've been around the industry a long time. And I was listening to John Malone being honored the other night and he said as you get older eventually you start to see things twice, which means I've got to be really old now because I'm seeing this stuff three and four and five times.

But I go back to the original AT&T estimate for wireless was 1 million customers nationwide by 2020, I think it was. In 1999 I literally had people say to me why are you going to go join Verizon? Everybody knows we've tapped out.

You're not going to grow mobile anymore. It happened again at 2G and 3G and 4G. So I just go back to the recent memory and say if you -- and I remember a conversation I had with Steve Jobs when I was describing what 4G LTE would do, and I said you know we might be able to get as high as 15 megabits.



And he goes okay, stop, you got me. I'm going to invest, I'm going to build the iPhone. And what did the iPhone do?

I mean the technology opened the door to the innovation which spurred growth. As we said last night at dinner, I think the leap from 3G to 4G was a bit more of a leap of faith than the leap from 4G to 5G. If you look at the pent-up demand around IoT and around video and around virtual reality, and I don't disagree with Mark Zuckerberg that virtual reality may be five years or 10 years out before it becomes big, but think about if it becomes big what does that mean for industrial use, for enterprise use, for entertainment use?

When you can deliver this early in the process, when you can deliver 2 gigs into a home with beamforming antennas and those -- so there's another big surge coming, Phil, there is no doubt in my mind. And the competitors, look, those of you that have been around since 1999, every one of those competitors has been two years away from catching Verizon.

If we stood still it might happen. Guess what, we don't stand still. So we're going to lead on 5G and we will probably lead on 6G, whenever that comes, but in the meantime there's a lot of opportunity out there.

Phil Cusick - JPMorgan - Analyst

Okay. And are you confident the Company can continue to grow on a subscriber base as all of the sort of waiting happens as we wait for these next-generation technologies?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

I don't think we have to wait a long time. There is a distinction between 5G in a fixed wireless environment versus a mobile environment. And those that are working on standards say mobile is more like a 2020 phenomenon.

Okay, I wouldn't argue with that. The use case for me that gets you over the hump on investing in the technology is the one that's right in front of us right now and that's a fixed wireless play and doing what I outlined that we're going to do in Boston.

That gives you all the return on capital that you need to invest in that technology and the rest of it's going to be gravy. So I feel very good about where we are.

Phil Cusick - JPMorgan - Analyst

Let's dig into that a little more. You mentioned 5G in Boston. Do you think a 5G for fixed wireless more as a in-region broadband replacement sort of a complement to Fios traditional or is it something that could go nationwide?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

I don't know why there would be any limitation on where we would take it. Really you just need to get access to fiber close, and close is to be defined, and that's why we bought XO Communications here in the last quarter because they have 45 of the top 50 markets, they have metro fiber rings.

That gives you the ability to be out into those markets and then you just run your extensions off of them. But, Phil, even if I look at rural markets the Company that has the best rural coverage of any carrier in the US is Verizon. So we've got whatever it is, 50,000, 60,000 towers out there, so if you start using the towers as the hub then you just spoke fiber off of that to get into the towns across the US you've got the ability.

And those customers are incredibly hungry for broadband. So limiting ourselves to within the Fios footprint, the Washington to Boston corridor, which by the way I love and we will invest in that just like we are here in Boston but there's no reason you need to be limited to Boston to Washington.



Phil Cusick - JPMorgan - Analyst

Okay. Whether you are coming from the wireless side or coming from a fixed side it seems like mobility and fixed are coming together pretty fast. And we've been hearing about cable getting into wireless or wireless getting into fixed for a long time but it seems like it's coming together more quickly than it has before.

It seems silly right now, it seems unlikely that two or three years from now we're going to be sitting thinking about four wireless players and independent broadband providers. How do you see these industries coming together?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Well it may sound a little bit like a copout but it will come together as quickly as the regulators allow it to. For Verizon whether we're competing against three wireless, three other carriers or two other carriers we're going to play our game.

It's not I'm going to do 5G in one or I'm not gonna do it in another, I'm going to go do it. So I think the health of the industry and how much capital each carrier has to invest is going to be governed by the structure of the industry. And there's been a couple of runs at it and they've been shot down.

I heard one of our competitors yesterday was lobbying for a purchase. And if that happens I think that opens up lots of other possibilities. I think bottom line is it just comes down to what the regulators are going to agree to.

Phil Cusick - JPMorgan - Analyst

Speaking of that, I was at the Cable Show last week and that industry is very vocally saying like they feel like they're under attack. The FCC is very activist against them.

How do you see this regulatory environment? What are the risks for Verizon?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Well, I guess I would just say to those that were complaining, welcome to the pool. We've been swimming in this pool for a long, long time. Our view is when you overregulate an industry there's so many unintended consequences that it's usually worse than better.

But if you're going to regulate then our view is you've got to have a level playing field. And right now whether it's a Google or a Comcast or whoever, if you're providing broadband services you should be playing by the same rules that all the rest of us have to play by. So that's our philosophy.

So I think the Special Access is one that you're probably referring to. We'd rather not have it but I don't think that's the kind of regulation that should only be AT&T and Verizon and CenturyLink and Frontier and the traditional telcos. If you're a broadband provider then you need to be governed by those rules.

Phil Cusick - JPMorgan - Analyst

So let's follow that down into more your business and enterprise side. Where do you see the overall environment for a small and medium business creation and what are your enterprise customers telling you?



Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Let's start with the enterprise side. I think there's a stability that we probably haven't seen over the last three, four years but I don't see people investing in a big way.

I go to the BRT, I get to talk to a lot of the largest CEOs and I think right now everybody is still waiting and frankly perplexed by the political environment here. And who ends up being the President and what their philosophy is, doesn't matter whether you're Republican or Democrat I think most people are scratching their heads here. Until that becomes clear I think enterprises are going to hold back a little bit.

We do talk a lot about the tax environment. We'd love to see some rationale, rationalizing of the tax codes and all that will lead into regulation.

On the small business side there's certainly lots of activity there. That's part of the reason we're bullish on getting fiber more into places like Boston because we think there's lots of opportunity there, there's lots of businesses that are being established. And we think there's good opportunity.

Phil Cusick - JPMorgan - Analyst

You've been in a dispute now with your union for about six weeks now. Can you give us an update there and talk about any impact on the business overall?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Yes, so we have been out on strike now for 42 days. Those of you that were probably greeted on the way in this morning by a few cheers are encouraging us. We're under a bit of a gag order now so I can't say a lot about negotiations.

I just will say that the Secretary of Labor, Tom Perez, has been very helpful in the process. So we do appreciate that.

The impact of the strike is probably what people are most interested in here. Our goals are to get our costs a bit more in line. We're obviously more expensive from a wage and benefit than our competitors are.

But we also realize we can't change this overnight for our employees. It's not fair to them. So we're trying to get that a bit more in line.

We also have a lot of -- we need to have a lot more flexibility. If you're coming in and building up a force to build Boston you need to have the ability to move that force around. So force flexibility is the other major issue for us.

As far as impact to the Company's bottom line, the way I think about it is the first three months of a strike you're doing a lot of training of new people to temporary workers to do the work and so your costs are up. From a pure cash perspective because you're not paying the wages and you're somewhat offset so cash is relatively neutral, the second three months of the strike is where your productivity goes up and we're actually well ahead of that. Our managers are doing a super job out there.

They are covering the installation and repair load. All of our call center activities are frankly running as well or better than they do normally.

We have pushed off installations. We're doing a lot of installations but we're not doing the same volume that we had before. So we won't be driving similar numbers in second quarter that we would in first from an installation perspective.

So the overall impact just depends on how we come out on the contract because we will get some concessions and then how long it goes. So when it's done we will make sure to communicate with our investors about what the overall net-net impacts are.



Phil Cusick - JPMorgan - Analyst

Last big topic, and help me think about the potential once we're through this installment plan shift which has been dragging and moving revenue around, how do you think about the potential for the aggregate business to grow revenue and earnings over time?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

I think first of all, we had said in mid-2015 that 2016 was going to be a year of transition for us. So we sold the three properties to Frontier. They were very profitable but they were not scalable for us so it was the right thing to do.

So that has an impact on earnings and there's some overhead associated that we need to get out of the business and we're working on that. So that was a bit of a drag. The move to the installment plans, our philosophy has always been let customers choose what they want.

Net-net while it may look better for earnings in the short run, the long-term value of the customer is about the same. So we have not pushed that as hard as others. And as Fran said last week, our adoption rate of device installment has been in the high 60s whereas others have been more in the mid-70s and each percentage point is meaningful, but that's what our customer base wants.

They want to maintain the subsidy and so I'm not going to force them out of that. That transition does lower your revenue per subscriber and then it flattens out over time and then it rises back up again. We've watched the other carriers and what their curve looks like and we think we're in the trough of that curve now and beginning to move back up.

So that will offset. So we've taken a number of steps. We did a reorganization, took cost out.

We still continue to do our Verizon Lean Six Sigma approach. We take typically \$5 billion a year out of the business from that perspective. So all of those meant that 2015 to 2016 was going to be a plateau, was the word I used, and then in 2017 we would return to normal growth for our Company.

And we think that's the case. The strike, by the way, is a little bit of a wildcard in that as I indicated. But we think that 2017 will put us back on that track.

Phil Cusick - JPMorgan - Analyst

Good. Good place to stop. Thanks Lowell.

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Thank you all.

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