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# EDITED TRANSCRIPT

MCFT - Q4 2017 MCBC Holdings Inc Earnings Call

EVENT DATE/TIME: SEPTEMBER 07, 2017 / 9:00PM GMT



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## CORPORATE PARTICIPANTS

**Terry D. McNew** *MCBC Holdings, Inc. - CEO, President and Director*

**Timothy M. Oxley** *MCBC Holdings, Inc. - CFO, VP, Treasurer and Secretary*

## CONFERENCE CALL PARTICIPANTS

**Craig R. Kennison** *Robert W. Baird & Co. Incorporated, Research Division - Director of Research Operations and Senior Research Analyst*

**Joseph Nicholas Altobello** *Raymond James & Associates, Inc., Research Division - MD and Senior Analyst*

**Laura Shelmire Engel** *Stonegate Capital Markets, Inc., Research Division - Senior Research Analyst*

**Marc J. Torrente** *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to MasterCraft's Q4 2017 Earnings Conference Call. (Operator Instructions) And as a reminder, this conference is being recorded.

I would now like to introduce your hosts for today's conference, Mr. Terry McNew, President and Chief Executive Officer; and Mr. Tim Oxley, Chief Financial Officer. Mr. Oxley, you may begin.

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**Timothy M. Oxley** - *MCBC Holdings, Inc. - CFO, VP, Treasurer and Secretary*

Thank you, operator, and welcome, everyone. Today's call is being webcast live and will also be archived on our website for future listening.

Joining me on today's call is Terry McNew, MasterCraft's President and Chief Executive Officer.

Our agenda includes a strategic overview by Terry, followed by my analysis of the financials, then Terry will discuss our strategies for growth and expectations for fiscal 2018, followed by the Q&A session.

Before we begin, we'd like to remind participants that the information contained in this call is current only as of today, September 7, 2017. The company assumes no obligation to update any statements, including forward-looking statements. Statements that are not historical facts are forward-looking statements and subject to the safe harbor disclaimer in today's press release.

Additionally, on this conference call, we will discuss non-GAAP measures that include or exclude special or items not indicative of our ongoing operations. For each non-GAAP measure, we also provide the most directly comparable GAAP measure. Our fiscal 2017 fourth quarter earnings release includes a reconciliation of these non-GAAP measures to our GAAP results.

Before turning the call over to Terry, I would like to remind listeners that there is a slide deck summarizing our financial results in the Investors section of our website.

With that, I will turn the call over to Terry.

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**Terry D. McNew** - *MCBC Holdings, Inc. - CEO, President and Director*

Thanks, Tim. I'd like to thank everyone for joining us today.



## SEPTEMBER 07, 2017 / 9:00PM, MCFT - Q4 2017 MCBC Holdings Inc Earnings Call

As you saw from today's press release, we delivered another strong quarter from both a top and bottom line perspective. Continued growth in retail demand and our focus on operational efficiency drove results.

For the quarter and fiscal year, we delivered gains in net sales, reduced our dealer pipeline inventory as well as continued to deliver on our industry-leading working capital management, which enabled us to reduce our total debt by \$17.7 million during the fiscal year.

During the fiscal fourth quarter, we introduced the new XT22, a larger XT crossover, a boat designed with families in mind. The second largest do-everything XT boat, the 22-footer's larger bow and sizeable wake provides more comfort and fun on the water. The new XT22 also showcases our newest industry-first innovations that create a more intuitive and customizable experience through new digital driving and digital entertainment systems.

After studying customers' usage habits and collaborating with leading technology partners, we simplified and enhanced the onboard experience with technology that tunes the boat's operations to 3 owner favorite usage modes: drive, tow and chill. The first-ever modal operating software for towboats is enabled by MasterCraft's new proprietary premium dual-screen dash that streamlines boat operation and improves helm styling and ergonomics.

With the most screen real estate on any towboat, the 10.1-inch new touchscreen and 12-inch nontouch display simplify boat control, enable better organization, and display information changes on both screens based on customized settings for each mode.

The system's software maximizes the additional screens by also offering preloaded tutorial videos and maps of all global waterways. The software also integrates with the users' cell phones, rear-facing cameras and navigation as well as enables real-time integration with GoPro Cameras.

Also, during the quarter, we announced an exclusive partnership with world-class, premium audio equipment manufacturer Klipsch Audio to bring premium, concert-level sound on our new sport boats. Klipsch Audio has created its first-ever marine speakers and amplification solutions that are exclusively offered on MasterCraft boats. Heralded in the music industry for its pioneering achievements and the power of its audio systems, new Klipsch Audio systems now create a heavy-hitting, customizable concert-style entertainment experience.

As a company, we're dedicated to providing the best experience on the water for our customers, and our partnership with Klipsch enables MasterCraft to create an exclusive, first-ever audio experience on the water.

We spend a lot of time focused on customizing boats to our owners' needs, from the look and style of the boat to the wake behind it. Digitally controlled, custom, concert-level sound is an exciting new onboard entertainment option that people of all ages will enjoy.

Turning back to our operational and financial performance. We delivered solid performance to close out the year, and we're optimistic about prospects for our fiscal 2018.

Equally important, we continue to deliver best-in-class working capital management, which provides opportunities to enhance shareholder return in a variety of ways.

Looking ahead, we remain committed to our 5-pronged growth strategy: developing new and innovative products; further penetrating the entry-level and midline segment of the performance sport boat category; capturing share from adjacent boating categories; strengthening our dealer network; and driving margin expansion through continuous operational excellence. This combined commitment to operational excellence and innovation, teamed with our strong diverse product portfolio, position MasterCraft well for fiscal 2018 and beyond.

Now I'd like to turn the call back over to Tim to go over our financials.

## SEPTEMBER 07, 2017 / 9:00PM, MCFT - Q4 2017 MCBC Holdings Inc Earnings Call

**Timothy M. Oxley** - *MCBC Holdings, Inc. - CFO, VP, Treasurer and Secretary*

Thanks, Terry. From a top line perspective, net sales for the fourth quarter rose \$4.9 million or 9.3% to \$58.3 million from \$53.4 million for the prior year period. The increase reflected a rise in unit sales volume of 37 units or 5.6% and favorable pricing and product mix.

Gross profit for the fourth quarter increased \$2.5 million or 17.3% to \$16.5 million versus \$14 million in the prior year period.

Gross margin increased to 28.2% from 26.3% for the prior year period. The gains resulted from price increases, sales of higher content option packages and lower retail rebates when compared to the prior year period.

On the expense front, selling and marketing expense increased \$0.1 million or 4.2% to \$2.2 million for the fourth quarter compared to the year-earlier quarter, primarily due to the timing of promotional activities.

General and administrative expense totaled \$3.7 million versus \$4.2 million for the prior year period. This decrease resulted mainly from lower litigation costs.

Turning to the bottom line. Fiscal fourth quarter net income totaled \$6.3 million versus \$4.8 million in the year-earlier quarter.

Adjusted net income was \$6.5 million or \$0.35 per share on a pro forma fully diluted weighted average share count of 18.7 million shares. This compares with adjusted net income of \$5.7 million or \$0.30 per share in the prior year period.

EBITDA was \$11.3 million compared to \$9.8 million in the prior year period, primarily due to increased net sales and higher gross profit.

Adjusted EBITDA margin rose 120 basis points to 19.8% from 18.6% in the prior year period. Adjusted EBITDA was \$11.5 million, a 16.3% increase from \$9.9 million in the prior year period.

See the Non-GAAP Measures section included in today's press release for a reconciliation of adjusted EBITDA, adjusted EBITDA margin and adjusted net income to the most directly comparable financial measures presented in accordance with GAAP.

A complete review of our fiscal year results also is included in today's press release.

With that, I would like to echo Terry's comments to reiterate that we are pleased with our performance.

I'll be happy to answer any fiscal year questions during the Q&A.

I will now turn it back to Terry for our outlook.

**Terry D. McNew** - *MCBC Holdings, Inc. - CEO, President and Director*

Thanks, Tim. MasterCraft has delivered solid fiscal 2017 performance and we're optimistic about the future.

Across the organization, we remain committed to our 5-pronged growth strategy that I outlined earlier.

For the fiscal year ending June 30, 2018, we expect net sales growth in the mid- to high single digits, adjusted EBITDA margin in the low 19% range and adjusted EPS in the low double-digit range.

Net sales growth will result in continued growth in net income, EBITDA and adjusted net income. Keep in mind that we had an unusually strong first quarter in fiscal 2017 and therefore, the year-over-year growth we expect for fiscal 2018 will not be as evident in the first quarter.



## SEPTEMBER 07, 2017 / 9:00PM, MCFT - Q4 2017 MCBC Holdings Inc Earnings Call

At this time, I'd like to turn it over to the operator for questions.

### QUESTIONS AND ANSWERS

#### Operator

(Operator Instructions) Our first question comes from Joe Altobello with Raymond James.

#### **Joseph Nicholas Altobello** - *Raymond James & Associates, Inc., Research Division - MD and Senior Analyst*

First question, I want to talk about retail this year. You guys have obviously had a very strong year. I think through April, you guys are up 35%. Could you give us a sense for what retail was up for the fiscal year globally?

#### **Terry D. McNew** - *MCBC Holdings, Inc. - CEO, President and Director*

Sure, Joe. Globally, we ended fiscal 2017, up about 13% over fiscal 2016.

#### **Joseph Nicholas Altobello** - *Raymond James & Associates, Inc., Research Division - MD and Senior Analyst*

Okay. So retail, up 13%; units, globally, up 2%. How should we think about dealer inventory and your thoughts there heading into fiscal '18? Would you expect to take inventory down further this year or ship really to demand this year?

#### **Timothy M. Oxley** - *MCBC Holdings, Inc. - CFO, VP, Treasurer and Secretary*

We're very close to where we -- what we consider the optimal level of inventory. So I would expect we're shipping to demand, and wholesale retail should be very closely aligned in fiscal '18.

#### **Joseph Nicholas Altobello** - *Raymond James & Associates, Inc., Research Division - MD and Senior Analyst*

Okay. And then in terms of gross margin, it sort of bounced around a little bit last year for a handful of different reasons. How should we think about the cadence of gross margin this year? Should it be a little bit more steady, given that I would think that you guys would be doing the same promotions this spring, or this winter that you did last winter?

#### **Timothy M. Oxley** - *MCBC Holdings, Inc. - CFO, VP, Treasurer and Secretary*

I wouldn't make that assumption. We do the promotions based on where we assess field inventory. So there will be differences, perhaps differences in cadence, but I think it will be certainly more even in fiscal '18 than it was in fiscal '17.

#### **Joseph Nicholas Altobello** - *Raymond James & Associates, Inc., Research Division - MD and Senior Analyst*

Okay, and just one last one. Any impact from the Tennessee State tax change for you guys?



## SEPTEMBER 07, 2017 / 9:00PM, MCFT - Q4 2017 MCBC Holdings Inc Earnings Call

**Timothy M. Oxley** - *MCBC Holdings, Inc. - CFO, VP, Treasurer and Secretary*

Yes. We've looked at that. There'll be a -- certainly, a positive impact. I estimated about \$600,000, if it had taken place for fiscal '17. And I haven't done the math on it for fiscal '18 yet, but certainly, a positive impact that we're pleased with.

**Operator**

Our next question comes from Laura Engel with Stonegate Capital.

**Laura Shelmire Engel** - *Stonegate Capital Markets, Inc., Research Division - Senior Research Analyst*

I wondered, referencing just the -- all the information on the new XStar and that being in the category of one of your higher selling boats, can you tell us in that category, will you continue to have just one model? Does this replace the other? And as far as the pricing, is it still in that, I think, it was \$100,000 to \$150,000 range, and -- with all the different additions, how that might also -- if that has any short-term effect on margins?

**Terry D. McNew** - *MCBC Holdings, Inc. - CEO, President and Director*

Laura, so the new XStar, which was released this year, was met with overwhelmingly positive demand. There's actually been 12 competitive riders this week alone who have publicly stated it's the best wakeboard boat in the market. We thought that. We're pleased to see that dealer reception this week in Orlando where we unveiled, it was extremely positive. It is a replacement for the prior XStar. It's similar in AUP than its predecessor, and that is already baked into our full year guidance.

**Laura Shelmire Engel** - *Stonegate Capital Markets, Inc., Research Division - Senior Research Analyst*

Okay. And then related to the, I guess, just your insight into the industry. As we get closer to the calendar year end and into the holiday, so have you all seen, with the improving economy, any shifts in consumer preferences towards the higher-end boats? And do you all have any intentions of tweaking pricing at all? Or I guess, will the model shift a bit with the consumer preferences going forward?

**Terry D. McNew** - *MCBC Holdings, Inc. - CEO, President and Director*

Good -- great question, Laura. Going back to the elections, we've said before, immediately after the election, we saw the -- our open order bank grow dramatically. In fact, it's the best it's been in years, it maintains that. Our open book is solid out through the end of this calendar year. And we see strong wholesale demand and positive consumer confidence and dealer confidence as well. We're -- one of our strategies, because of our operational excellence, is to keep bass boat pricing less than our competitors, and we're able to do that very effectively. Our 4- or 5-year bass book CAGR price increase has only been about 2.7%. We do see, through our options -- as you know, we have won the innovation award in our category, 6 out of the last 7 years. Won it again with DockStar last year. So our innovation is really key for us and we deliver new products out to the market from our innovation strategy. No different in '18. We've got a new Power Tower, which is thousands of dollars less than its predecessor. We released a cool-touch vinyl in model year '17, first in the industry to do that. We've expanded the color offerings this year. The new optional 12- and 10-inch screens that I mentioned previously and the new Klipsch Audio is amazing, and that is unique and exclusive to us. The new dash that I mentioned and the user interface that we've been developing, we worked with a leading auto manufacturer to develop that. It is unique to us. All of those things will continue to drive option uptake. So we do see, through a combination of things in '17, as we -- in the winter campaign, did a nationally advertised pricing on our NXT20, NXT22 and our ProStar. And then with our spring campaign, we actually expanded that to 7 models that are available with MasterCraft under \$100,000. And so, we really have brought awareness to the affordability of the MasterCraft. And with that, it's key to driving our retail sales results last year and it's continuing so far in model year '18. So to Tim's point, dealer inventory was very healthy at the end of fiscal '17 and we continue to see that, we -- in our guidance for '18, of increased net sales. We have taken production up a bit. And -- at the beginning of the year, we'll take advantage of that strong retail demand through wholesale and enjoy the good inventory return. But really, everything in our portfolio is contributing; since we started in the winter campaign with our entry-level, the NXTs have taken off. As I visited the



## SEPTEMBER 07, 2017 / 9:00PM, MCFT - Q4 2017 MCBC Holdings Inc Earnings Call

dealers over the summer, we're seeing it at retail. We're seeing a pull-through into wholesale. Our XTs, that segment which was initially launched last year with our XT23, then the XT20 and XT21, and most recently the XT22, that midline segment, those products have been very, very well received. Sell-through rate is tremendous. It is a true crossover. You can -- I have an XT23. You can do great recreational skiing with it. We designed it in a way with the ballast tanks to give it a more level ride, which enhances the skiability, but it does not take away from surfing or wakeboarding. And it has been very, very popular. Now with the new XStar, our X series, which has been strong with our X26, which we released a few years ago; our X23 which is enjoying its fourth year in our lineup is still extremely strong. And now with the new XStar, our X series is selling extremely well. So really, we're seeing it at all ends of our portfolio, and we're also seeing it in the market share as well.

### Operator

(Operator Instructions) Our next question comes from Tim Conder with Wells Fargo.

### Marc J. Torrente - Wells Fargo Securities, LLC, Research Division - Associate Analyst

This is actually Marc Torrente, on for Tim. Good execution again this quarter. I just have a few questions here. Could you provide a little more color on international trends by major region? We've heard retail is starting to recover internationally. Is this consistent with what you're seeing? And then, I guess, if so, when would you expect to see a benefit flow through with higher dealer restocking?

### Terry D. McNew - MCBC Holdings, Inc. - CEO, President and Director

Yes, we've actually seen an increase in our international shipments; starting at the beginning of this model year, we're up significantly. Canada is up double digit. Australia is up double digit. Europe's doing fine. And we think that the dollar devaluation will provide additional tailwind there. So we're very bullish of our international shipments. [And Marc], I'll clarify in just a moment. We actually, Marc, saw the increase at the beginning of model year '17. We bottomed out, as we had said before, and we took dealer commitments down in '16 in Canada, especially when we saw the oils decline, which, Western Canada, as we all know, is really dependent on that, and the devaluation -- rapid devaluation of the Canadian dollar. And we saw a rebound in fiscal '17. So we're real happy, and we're continuing to see that in '18.

### Timothy M. Oxley - MCBC Holdings, Inc. - CFO, VP, Treasurer and Secretary

Yes. And I think, in '18, since we saw the rebound that began in '17, I would expect '18 to probably mirror what we're seeing in the U.S., mid- to high single-digit growth.

### Terry D. McNew - MCBC Holdings, Inc. - CEO, President and Director

Marc, also in Australia, we have a really strong performance in model year '17. And I echo Tim's comments that we'll probably -- it was so strong in '17 that it will probably be along the mid- to high single digits as well as domestic, right -- in line with domestic in '18.

### Marc J. Torrente - Wells Fargo Securities, LLC, Research Division - Associate Analyst

Okay, great. And it looks like you accelerated debt repayment in the quarter. Could you maybe update us on your priorities with excess cash? And any appetite for acquisitions at this point?



## SEPTEMBER 07, 2017 / 9:00PM, MCFT - Q4 2017 MCBC Holdings Inc Earnings Call

**Timothy M. Oxley** - *MCBC Holdings, Inc. - CFO, VP, Treasurer and Secretary*

Sure. We had -- we paid \$10 million more than the amortization schedule required during this quarter. We're going to continue to deploy cash in a way that it provides shareholder value. We've been active on the M&A front. We've been talking about that for a couple of years. We continue to evaluate opportunities and we will until we find -- until the right one comes along.

**Marc J. Torrente** - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

Okay, great. And then, just a couple of housekeeping items. Outlook for D&A, interest expense and CapEx for the year.

**Timothy M. Oxley** - *MCBC Holdings, Inc. - CFO, VP, Treasurer and Secretary*

Interest expense is going to be between \$1.8 million and \$2 million. Depreciation runs about \$3.3 million. Amortization is a [paltry \$100,000].

**Marc J. Torrente** - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

And CapEx?

**Timothy M. Oxley** - *MCBC Holdings, Inc. - CFO, VP, Treasurer and Secretary*

CapEx is going to be in the -- we've just guided...

**Terry D. McNew** - *MCBC Holdings, Inc. - CEO, President and Director*

We've guided between \$3.5 million and \$5 million, Marc. We're consistent with that. A bulk of that is related to the 3 new model releases, the tooling associated with those. So pretty consistent.

**Operator**

Our next question comes from Craig Kennison with Robert W. Baird.

**Craig R. Kennison** - *Robert W. Baird & Co. Incorporated, Research Division - Director of Research Operations and Senior Research Analyst*

I apologize, I hopped on a little late. Were you able to address the potential impact of the hurricane moving towards Florida and also your exposure to Texas as well?

**Timothy M. Oxley** - *MCBC Holdings, Inc. - CFO, VP, Treasurer and Secretary*

We haven't addressed that yet, but it's a great question. First of all, in a relationship to Texas, Texas is a very important marine trade area, but Houston is the less important of the 3 major metropolitan areas that we do business in. So there could be some short-term impact. We got 7 boats scheduled to ship later this month. And right now, the dealer thinks he is going to be able take those boats. We're going to keep an eye on it. You know, kind of a late breaking development, we were notified after lunch today that all of the ports that we ship international boats from have been closed due to the upcoming hurricane headed for Florida. Too soon to say what the impact would be for the quarter. Hopefully, it's a glancing blow. Hopefully, it doesn't disable the ports for a longer period, but just wanted to bring that to your attention. International sales have been so strong for us that if there is any impact, it would just be pushing sales from Q1 into Q2. Demand is still there. The boats have the dealers' names on, obviously credit approved, and so forth. So just alerting people that the damage to the ports could impact international shipments.



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 SEPTEMBER 07, 2017 / 9:00PM, MCFT - Q4 2017 MCBC Holdings Inc Earnings Call
 

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**Craig R. Kennison** - *Robert W. Baird & Co. Incorporated, Research Division - Director of Research Operations and Senior Research Analyst*

And then, with respect to your dealer network, do you see any changes to the network? Or do you see any opportunity for you to just grow within your dealer network in terms of gaining share?

**Terry D. McNew** - *MCBC Holdings, Inc. - CEO, President and Director*

Craig, this is Terry. As we mentioned throughout last year, it was a transition year for us and we're working very hard. We made a lot of positive changes in adding dealers in white spaces, both domestically and internationally, and we've also upgraded some areas that we did business with before, as we worked with our existing dealers, and that has really been consistent not only domestically but internationally as well. And so, when you look at the new models, the nationally advertised pricing that I mentioned, and in conjunction with these additional points of distribution in newer, better distribution, stronger distribution, it's why we have such a -- we're so bullish on '18.

**Craig R. Kennison** - *Robert W. Baird & Co. Incorporated, Research Division - Director of Research Operations and Senior Research Analyst*

And then lastly, some of the industry data for July was a bit choppier than the rest of the season. Any comment on what you saw in the month of July, and maybe August, in terms of more recent retail trends?

**Timothy M. Oxley** - *MCBC Holdings, Inc. - CFO, VP, Treasurer and Secretary*

Yes, retail, it continues to be up for the first couple of months of fiscal '18 over '17. You may have heard when we started the call, we were up globally 13% retail in '17 over '16. So we're pleased. We did see a little bit of a pause, but we were still up year-over-year. August seems to have accelerated a bit faster, picked up some momentum. But August only makes up roughly 10% of the year. We're on the back side of the moon, if you will, for retail. But when we talked to you guys on our last call and we said how strong third quarter was for 3 specific reasons, we weren't sure, but we thought most of those were going to register in Q4. And that's exactly what we've seen in the SSI data. We have picked up market share -- very strong market share in April, May, June and in July. Now keep in mind, April is -- almost all states reporting, about 47 states, not quite -- generally, 48 states, according to the SSI, it's just about all states reporting. But we picked up 180 basis points of market share, rolling 12. And our unit volume growth on a rolling 12 basis is up significantly stronger than the segment, and the segment is stronger than most other segments in the broader boating industry. And in May, we saw the same thing. Our unit volume growth, rolling 12, was up significantly over the segment, about 45 states reporting. We picked up 140 basis points of market share. In June, with only 41 states reporting, we picked up about 80 basis points. Again, our unit growth was up significantly over the segment. And we're seeing the same trend in July. We're up about 100 basis points with our unit volume, rolling 12, up significantly over the segment. So we're very pleased. And again, that ties right into our positive feelings on what we're seeing in worldwide dealer inventory and wholesale demand.

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### Operator

Our next question comes from Tom Higgins with Aegis Capital.

It seems as though Mr. Higgins' line is on mute.

All right, I'm not seeing any further questions in queue, so I'd like to turn the conference back over to Mr. McNew for closing remarks.

**Terry D. McNew** - *MCBC Holdings, Inc. - CEO, President and Director*

Thank you, operator. Once again, thanks to everyone for joining us. We believe that our success has positioned us well for fiscal 2018 and beyond. We look forward to updating you on our progress and first quarter results in November. Thank you.



## SEPTEMBER 07, 2017 / 9:00PM, MCFT - Q4 2017 MCBC Holdings Inc Earnings Call

**Operator**

Thank you. Ladies and gentlemen, that does conclude today's conference. Thank you very much for your participation. You may now disconnect. Have a wonderful day.

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