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VALMT.HE - Q2 2015 Valmet Corp Earnings Call

EVENT DATE/TIME: JULY 30, 2015 / 1:00PM GMT



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PRESENTATION

Hanna-Maria Heikkinen - *Valmet Corporation - VP IR*

Good afternoon, ladies and gentlemen. You're warmly welcome to this audio conference, related to Valmet's Q2 2015 results.

My name is Hanna-Maria Heikkinen and I'm in charge of investor relations. As you may recall, Q2 is the first quarter when Automation is part of Valmet and is reported as a separate business line. The start for Automation as part of Valmet was strong. The feedback from our customers and employees has also been good.

The good news is also that our profitability reached that targeted range in Q2. Our CEO, Pasi Laine, will go through the Q2 2015 in brief and business lines' development. After that, our CFO, Markku Honkasalo, will review our financial development. After that, Pasi will review the guidance and short-term market outlook and summarize Q2. After the presentation, there is possibility to ask questions.

Pasi, please, it's time to start.

Pasi Laine - *Valmet Corporation - President and CEO*

Okay. Thank you, Hanna, and welcome everybody also on my behalf. So, I have the traditional or we have traditional agenda. First, I'll go through the quarter two, then business line development. Then Markku will go, as Hanna said, through the financial development and then we'll go through guidance and short-term outlook and then summary.

So, first, quarter two in brief. Main message or not main but one important message is that Automation started strong as part of Valmet. So, we completed the acquisition in first of April and since then, we have been working pretty much together. Order intake has been good. Net sales was good and we have been getting good feedback from customers and also from our own employees. So, start for Automation as part of Valmet has been good and I'll come back a little bit later on to Automation.

Then we are, of course, focusing on this stable business and how to grow stable business and we are happy to tell that orders received and net sales have increased in stable business. So, in Services, we got quite strong quarter and we were able to grow compared to last year. And the net sales was also - also growing compared to last year's, second quarter.

And as I said, Automation had strong quarter two both in order intake and net sales but, of course, we don't have the comparable numbers from last years. So, all in all, stable business developed well in quarter two.



Our orders received decreased in capital business and net sales increased. And, of course, one reason for the - for the declining orders compared to last year was that last year's quarter two was exceptionally high.

And net sales has been increasing in Paper and remained at about last year's level in Pulp and Energy.

Then backlog, we have about EUR2.2 billion backlog and it's EUR144 million higher than - than in quarter one 2015. So, backlog, like I will, show later on is at reasonable level.

Profitability has been developing well. So, our EBITA for the quarter was EUR54 million. And like Hanna-Maria - Hanna said, the margin increased to 6.9% for the quarter two. So, we are first time this year, we are on the targeted level for the quarter.

Net debt increased due to Automation acquisition, so our net debt is now about EUR240 million and gearing 29. And Markku will cover those numbers better. So, that's quarter two in brief.

Here's a picture of our net sales split. And now, of course, now Automation is included and there, you see that from net sales, about 48% in the quarter came from our stable businesses and the rest came from capital businesses.

Geographically, I think it's good to mention that North America continues to be strong and also as a market and then share of North America has been increasing from last year.

After the acquisition of Automation, we are now, again, a little bit bigger company employees - employee wise and we have about 12,500 employees.

Then, if we go to the numbers, our orders received was 780 million. Down compared to last year but like I said, last year, first and second quarter was exceptionally high. So, we can say that we are satisfied with the order intake that we got in second quarter.

Backlog is 2.2 billion. Down compared to last year but still at good level. Net sales was EUR779 million. Increased by over 30% compared to last year and we generated EBITA EUR54 million. And EBITA margin was 6.9%. And I think that shows that the work what we have been doing is bringing you the - now some results and we start to be at least in this quarter on the targeted level.

Gearing, like I said, is now 29%. Last year, it was minus seven and, of course, the biggest impact comes from the acquisition of Automation and the debts what we got because of that. But all in all, good quarter.

And if we look at half-year numbers, order intake one point - almost EUR1.4 billion. Then EBITA, EUR73 million and EBITA margin 5.5%. So, there you see that for the first half of the year, we are still below the targeted level - targeted range. But we are aiming towards the targeted range, of course.

Here's, the trend - so order intake trend has been sliding down. But like I've said, now, the second quarter, at good order intake of about EUR780 million and it's good level without any - without many major projects so it's good development. Net sales was about EUR780 million and that's, of course, the same - same level with our order -- sorry -- orders received from a geographical point of view has been developing well, especially in North America where the market has been active.

If we look at businesses here, so Services has been increasing and there it's coming from the - from the increased focus and since last year, about - about a year ago, we started to put more focus in order intake and sales in Services and we start to see the results of that work. Automation started well with EUR85 million external orders. Pulp and Energy decreased but the explanation is the last or the last year and Paper stayed - decreased a little bit - increased in Tissue but decreased in Board and Paper.

And like I said, North America was developing well again and continue to develop well.

Then backlog, EUR2.2 billion, 70% of the backlog is for capital businesses and 30% of the business - of the backlog is said to be for stable businesses, stable businesses meaning Services and Automation. And then, we are saying that about 60% of the backlog is expected to be realized in sales in 2015. So, healthy situation backlog wise as well.

Here, the graph about our EBITA margin. Like you know, our target is to be between 6% to 9%. We started from 0.7% and end of the last year, we reached the target. Then the first quarter was lower. Like we said, because of the net sales. And now with the same net sales level in the last year, end of last year, we achieved 6.9% in EBITA. And like I've said, we were first time this year on the targeted range.

And I think it's important to mention that profitability improved also without Automation. So, the profitability programs, what we have been doing have been bringing results and then Automation increased the profit also on top of the - of the old businesses.

Then where from the EBITA development is coming, of course, net sales has a big impact and then the other impact is coming from gross profit development, and we have been working all the time that we increase our gross profit and gross profit has been going - developing to the positive direction and last quarter, we had - we had about 23% in gross profit.

And SG&A, were about 17%. And here, in this quarter, you'll see first time the SG&A for the new Valmet including Automation as well. But now, I would - I would say that SG&As have been under control and now the increase is mainly coming from the acquisition of Automation.

And then, we of course, continue to work with our profitability. So, we have, like, I've said many times to you, several things by which we are working with - so we are working with a project and service margin to develop that to a positive direction. We have program ongoing to reduce the quality costs. We have procurement program where we reduced our procurement costs and then one important thing is, of course, the product design and how we are able to make products which are even more cost competitive at today's programs.

And these all have been going on now for one and a half years and we see now some results. And, of course, we continue to work with the same topics because many of them are such that they are never ready and once you have something ready, then you start with the next program. But that's our way to - how we are improving our profitability and working towards that targeted range.

Then, if go through the business lines, first, Services. Services has been developing well. Order intake is 11% ahead of last year. So, service business line has been doing good work and our area organizations have been doing good work.

About - if I remember correctly, Markku might correct me later, but half of the growth is coming from the currency exchange rate but even without the currency exchange rate, we have been able to grow 5% to 6% organically in Services and I think it's good achievement in our type of industry.

Net sales was first time over EUR300 million and that, of course, telling two things that - or one thing that we have capability to deliver the order intake what we have been doing and we are not in the position that order backlog is growing all the time so it's important that we now have been able to increase the net sales level also to the same level where our order intake is. So, all in all, I'm reasonably satisfied with our development in our Services business.

Automation had a strong start. So, total order intake was EUR95 million. External order intake, EUR85 million; internal was then 10 and we want to show you also the internal order intake so that you then get view what size of business we have been buying and, of course, can be that in future a bigger and bigger share will go inside Valmet deliveries. So, might be that the internal businesses come growing and we want to show to you that as well. So, externally, it's EUR85 million and internal EUR10 million -- sorry -- external, EUR85 million, and internal 10 and the total is EUR95 million.

Net sales quite the same story. Net sales was good, EUR79 million. Internal sales EUR11 million and the external sales is EUR68 million. The graphs will, of course, tell more about the business line development later on when we will have more quarters which we have reported Automation as part of Valmet.



But all in all, we are happy with - that we were able to acquire Automation and we are happy how our personnel has been active in becoming new Valmet employees and we are, of course, happy that our customers have reacted very positively to the fact that Automation is now part of Valmet. So, good - good development for the first quarter after acquisition.

Then Pulp and Energy. We received orders worth of EUR259 million. It's, of course, smaller than last year but we would say that it's reasonably good month - quarter. So, it's - it was a good quarter.

Net sales wise, we had EUR231 million and that's what we expected and it remains at the stable level. And here, you start to see that even if our order intake is varying quite a lot, still the 12 months cumulative for the net sales is reasonably stable even if it's coming in big orders and some does - with less orders.

Then the Paper orders were EUR129 million and that's roughly what we expected and net sales was now EUR177 million and that, of course, improved compared to the first quarter when our net sales was lower like we said to you on capital market days already and now the cumulative number starts to be about at the normal level and we are happy with the development in Paper business line as well.

Then I will let Markku to continue with the financial numbers.

Markku Honkasalo - Valmet Corporation - CFO

Okay. Thank you, Pasi, and good afternoon also on my behalf.

So, before I go to the numbers, just to conclude what Pasi said, the currency impact on our Services business. So, cumulatively there has been a growth in our Services business some 11% and in constant currencies is roughly 5.5%. And net sales, cumulatively, growth 15%, and in constant currencies is 7.5%. So, correctly said by Pasi that roughly half is coming - coming from the impact of the currencies. But never the less, there has been a growth both in terms of the order received and net sales.

Okay, then I'm going into the - to the cash flow. So, in Q2, we had an EBITDA creation of EUR57 million. Then our change in net working capital was negative EUR30 million and our cash flow from operations was EUR17 million.

Our capex, excluding the acquisitions was EUR9 million and then the cash flow impact of this Automation acquisition was EUR330 million. So, our cash flow after the investment was EUR321 million negative and cumulatively this figure is now minus EUR351 million.

Then net working capital, so during the year 2014, we had a very good and strong orders received development. And as a consequence of that one, the change in net working capital was positive EUR 103 million. Since the beginning of this year, the change in net working capital cumulatively has been negative EUR 79 million and it's pretty much following the - how our orders received is developing and the guidance what we have, it's on average minus 9% of rolling 12 months orders received.

And at the end of the Q2, it was minus EUR 255 million which equals about minus 11% of rolling 12 months orders received. The impact coming from the Automation for the net working capital at the end of Q2 was EUR 20 million.

Then at the end of Q2, we had EUR 190 million cash and cash equivalent and our interest bearing debt was EUR 428 million. Thus our net debt was positive - was EUR 238 million and gearing was 29% positive. And then all this changed from the previous quarter from the impact of the acquisition of the Automation business.

Our equity at the end of the Q2 was EUR 812 million and that turns into the equity ratio of 35%. The capital employed at the end of the Q2 was EUR 1.2 billion and the return on capital employed annualized was 9% at the end of the Q2.



Then our debt portfolio, so we have a well-balanced maturity structure. So, this EUR 428 million is pretty much evenly splitted between the years and the last repayment takes at the end of the 2024 (inaudible). And our long-term loan portfolio consists from the loans from European Investment Bank, Skandinaviska Enskilda Banken, Swedish Export Kredit and Nordic Investment Bank.

And on average the - or the average maturity of our long-term loan portfolio at the end of the Q2 was 3.8 years and the average interest rate was 1.3%.

Then, in addition to our long-term loans, we have the backup facilities, EUR 200 million syndicated revolving credit facility which was undrawn at the end of the Q2 and then we have EUR 200 million commercial paper program out of which EUR 30 million was drawn at the end of Q2.

So, then I'm moving back to Pasi again.

Pasi Laine - *Valmet Corporation - President and CEO*

Good. So, next is the guidance and short-term market outlook. So, we are keeping our guidance as it has been. So, Valmet estimates that including the acquisition of Process Automation Systems, net sales in 2015 will increase in comparison with 2014 and EBITA before non-recurring items in 2015 will increase in comparison with 2014. So, we don't see any reason to change our guidance.

Then short-term market outlook. In Services, we keep the market outlook the same so we see that the market activity and possibilities are satisfactory. And if we work hard and well, then we can - we can aim to grow the Services further.

Pulp and Energy, we are saying that market activity for Pulp is good. In Energy, we keep it as a week, so to say, (inaudible). And Paper, we are saying the same that Board and Paper market continues to be a good, and Tissue, satisfactory also in coming quarter. So, Automation, we are saying that the market will stay as satisfactory. And so, all in all, we are saying that we haven't seen any changes in our market environment into businesses compared to quarter one.

So, next slide, we have - we have then the summary of the quarter two. So, we are, like I've said many times already, we are happy that we were able to buy Automation and we also are very satisfied that the start has been good both financially but also from customers perspective and internally. So, we have a lot of positive energy now around Automation.

Our orders received has been - and net sales has been increasing in the stable business which goes like we have been planning. Orders received has decreased in the capital business and net sales has been increasing. Backlog is still good at EUR 2.2 billion level. We have good development in profitability.

So, first time this year, we reached the targeted range and net debt of course increased to the Automation with - due to the Automation acquisition but gearing is still at a manageable level at 29%.

So, that's the summary. And now, it's back to Hanna and questions.

QUESTIONS AND ANSWERS

Hanna-Maria Heikkinen - *Valmet Corporation - VP IR*

Thank you, Pasi. I'd like to say that we are now ready to take questions.



Operator

Thank you. [Operator instructions]. Please stand by while we compile the Q&A queue, this will take a few moments.

And your first question comes from the line of Manu Rimpela. Please ask your question.

Manu Rimpela - Nordea - Analyst

Good afternoon. My first question would be on the Paper sales. You said that cumulatively, we are at the normal level. So, does that mean that the kind of, average of Q1 and Q2 is the normal level of sales for the Paper given the order intake today and was there something special in Q2 why the sales was so high compared to Q1?

Pasi Laine - Valmet Corporation - President and CEO

Thank you, Manu, for the question. Normal is, okay, I will say normal. So, we say we had, like, we were saying low regular commissioning in quarter one and then - then, of course, the next quarter there will be always more POC recognition. So, then if you count those two quarters together, then it starts to be at normal level. So, maybe my point was more that quarter one was very low and because some of the - of the revenue recognitions, materialized in second quarter.

Manu Rimpela - Nordea - Analyst

So then this will also mean that the cost absorption in Q1 was exceptionally low and then, maybe, slightly higher than normal in the second quarter. So, how should we think about the seasonality in the second half of the year for the Paper division especially?

Pasi Laine - Valmet Corporation - President and CEO

Well, it's not seasonality. It's - and we - and we are not - not giving the guidance for the quarters, we are giving - and business lines - so, we are giving only guidance for the whole Valmet.

But in quarter one, we wanted to warn everybody about exceptionally low revenue recognition. So, but it's not seasonality. It's coming more from the fact that what kind of contracts we have and what kind of milestones are happening in one quarter and there are changes between the quarters. So, they are never - milestones are never happening evenly in capital business.

Manu Rimpela - Nordea - Analyst

Okay. So, just to clarify, so you are not saying any special milestones you want to highlight in the second half of the year?

Pasi Laine - Valmet Corporation - President and CEO

No.

Manu Rimpela - Nordea - Analyst

Okay.



Pasi Laine - Valmet Corporation - President and CEO

No.

Manu Rimpela - Nordea - Analyst

And then - then the second question on the first and the second half profitability for the group. So, I mean, I understand this is a dynamic of milestone payments and what it means but how should we think about the seasonality. Because last year, you have - well, we don't have a lot of track record for your company and the last years have been burdened by margin issues in execution. So, how should we think about the seasonality between the first half and the second half?

Pasi Laine - Valmet Corporation - President and CEO

Now, generally, second half in history has been better because there's more - more Services net sales. So, in a historical perspective, bigger share of Services net sales is coming in second quarter and that's why the profitability historically has been so. But that's historical, so we, of course, cannot give - give guidance for this year.

Manu Rimpela - Nordea - Analyst

Okay. And then final question. In terms of the cost savings that you've been implementing and all these restructuring measures, is there anything more tangible you can give in terms of how much we've seen benefit so far and how much we will see in the second half of the year and 2016.

Pasi Laine - Valmet Corporation - President and CEO

Now, we opened that more in capital market day and told what kind of achievements we have had in quality and health and safety and that kind of matters. But we haven't thought that we open then on quarterly basis.

Manu Rimpela - Nordea - Analyst

Okay. But you expect to see more coming through as the year goes on, I guess?

Pasi Laine - Valmet Corporation - President and CEO

No, I'm expecting that we continue - continue to work with all these matters and, of course, there are negative things in the marketplace as well. But we continue to work so that we - we target to - be on the targeted profitability range.

Manu Rimpela - Nordea - Analyst

Okay. Thank you.

Pasi Laine - Valmet Corporation - President and CEO

Thank you, Manu.



Operator

And your next question comes from the line of Sven Weier. Please ask your question.

Sven Weier - UBS - Analyst

Yes, good afternoon. Three questions from my side, please. The first one is just if you could give us an update on the pricing situation in the Pulp business? I would suspect that there is probably no change as always but given that's, you know, the pipeline seems to be growing with not only Fibria and Eldorado but also Lwarcel seems to want to do mill, I guess that the pipeline is getting even bigger.

So, I would suspect that pricing should be getting better eventually. The second question is just on the first time consolidation of Automation, it seems that the revenues were very well in the run rate of last year's annual revenues. I was just wondering if you could give us a direction if the profitability of Automation was also already in the kind of usual range you had in the past of whether it's still kind of some one-time cost that you might have had associated with the first-time consolidation.

And then the last one, just on the currency impact you gave on orders and revenues in the second quarter, if you could allocate the EUR 36 million on orders by division and the 31 on sales. Thank you very much.

Pasi Laine - Valmet Corporation - President and CEO

About the pricing in Pulp mill projects, I continue with the same answer that they are always sold on the market price and capability to be more selective depends on the - on the backlog of suppliers. So, there's no dramatic change on pricing environment in Pulp mill projects.

Automation profitability, I don't - so, this is the first time when Automation was with us and we are satisfied with the profitability already in the first quarter. And we - Markku can open up the non-recurring items more after my answer but we - we didn't see any or Automation's profitability was like we expected it to be. And the currency question, Markku can also answer.

Markku Honkasalo - Valmet Corporation - CFO

Okay. Thanks - thanks, Pasi. So, first of all, if I start with the currency. So, we have not specified that - where that impact is coming to, but mainly - it's mainly to our services business, so without being too specific.

And then, okay, these are non-recurring items. So, all in all, we had EUR 12 million nonrecurring items in this quarter, out of which EUR 10 million relates to the cost of acquisition to the Automation business.

Sven Weier - UBS - Analyst

And maybe -- yes, sorry.

Pasi Laine - Valmet Corporation - President and CEO

Markku, could you a little bit open it more or --

Markku Honkasalo - Valmet Corporation - CFO

Okay. Okay. Sorry, Sven. Yes, yes. Ten million. So, EUR 5 million is an transfer tax. So, this is a Finnish a - Finnish transfer tax. So, when you are buying shares, you have to pay an transfer tax.



And then roughly two point - yes, roughly half of the remaining balance was the transaction cost. So, what we have to pay in order to be able to conclude this deal and then the remaining balance was inventory step-up cost.

Sven Weier - UBS - Analyst

And just coming back on the pulp pipeline question, I mean, would you agree with my observation at least that, you know, it's getting more busy with another mill being announced and that the outlook is, I think --

Pasi Laine - Valmet Corporation - President and CEO

No. No. We have increased outlook to good. So, from that perspective, I agree that it's better activity than it used to be half a year ago.

Sven Weier - UBS - Analyst

Okay. Thank you.

Operator

Your next question comes from the line of Antti Suttelin. Please ask your question.

Antti Suttelin - Danske Markets Equities - Analyst

Hi, this is Antti. Two questions. First of all, gross margin. What happened in the second quarter? Because if I compare second quarter versus first quarter, I can see that in the first quarter, gross margin actually fell year-over-year if we adjust with the Suzano loss you had a year earlier. And then in the second quarter, a super increase in gross margins. So, what happened? It's really so lumpy.

Pasi Laine - Valmet Corporation - President and CEO

Markku, can you answer?

Markku Honkasalo - Valmet Corporation - CFO

Yes. Yes. Antti, thanks. First of all, and now on relative terms, that wasn't that big change. But, I mean, as we explained, as we explained already in Q1 when we showed the gross margin. So, due to the low level of volume, so of course, you have an absolute gross - the gross margin, it is, of course, lower. But the percentage point that was not such a big drop.

And then, of course, the volume, if you compare the volume, overall volume, Q-on-Q, there was a big change in overall volume. And also, then of course, the Automation had a positive impact on our gross margin in Q2.

Antti Suttelin - Danske Markets Equities - Analyst

All right. So, part of the increase was because you had the revenue transferred from Q1 to Q2?



Markku Honkasalo - Valmet Corporation - CFO

Yes. That, of course, I mean, volume has an impact. But like I said, more, you know, the relative profitability. So, not that big change. But, of course, when our - we had a lower volume in Q1. So, it's clear that we make absolute euros less in Q1 than in Q2.

Antti Suttelin - Danske Markets Equities - Analyst

Okay. Thanks. And then on Pulp order intake which I think was the - was a positive surprise to the consensus, is there something that you haven't yet announced or is it more like the base business, the unannounced business has grown over the years?

Pasi Laine - Valmet Corporation - President and CEO

Now, I don't remember by heart what everything we have announced. But of course, there was one big order what we announced and it has, of course, an impact in - an impact to the quarter two numbers.

Antti Suttelin - Danske Markets Equities - Analyst

Yes, but on top of that, was there something which - something bigger which you haven't been able to announce?

Pasi Laine - Valmet Corporation - President and CEO

That must have been bigger, okay. Depends how you define bigger. But, of course, there have been sizeable smaller projects in quarter two which have been booked.

Antti Suttelin - Danske Markets Equities - Analyst

Yes. Okay. All right. That's all. Thanks.

Pasi Laine - Valmet Corporation - President and CEO

Thanks, Antti.

Operator

[Operator instructions].

And your next question comes from the line of Tomi Railo. Please ask your question.

Tomi Railo - SEB - Analyst

Hi. Good afternoon. Still coming back to the first question. I was a little bit interrupted by the operator. But looking into the very strong second quarter slide, weak first quarter and second half being usually above on sort of - on third quarter and fourth quarter about the second quarter level - should we - how should we think about the second half? Are we moving as usual on a sort of sequentially higher levels or should we rather think that, maybe the average was closer to the first and second quarter? Can you a little bit talk about - sort of about the deliveries and the profitability (technical difficulty)?



Pasi Laine - Valmet Corporation - President and CEO

Markku, can you give more precise answer than I tried?

Markku Honkasalo - Valmet Corporation - CFO

So, yes, okay. So, Tomi, first of all, we are not giving any quarterly based guidance and like Pasi said earlier on that, you know, capital business, we are using percentage of completion method in revenue recognition and depending on the timing of these milestones, it will have an impact on the overall net sales. In Q1, we knew that there will be exceptionally lower months of recognitions but we are expecting anything that to happen going forward.

But I mean there are always changes because it's not only totally dependent on us. And then, of course, we have two stable businesses, Automation and Services. But we are not giving any specific guidance going forward. But you heard what Pasi said that, historically, the second half has been a little bit stronger, there has been a small seasonality impact on Services business.

Tomi Railo - SEB - Analyst

Okay. Thank you.

Operator

There are no further questions at this time. Please continue.

Hanna-Maria Heikkinen - Valmet Corporation - VP IR

So, if there are no further - further questions, I'd like to thank you for this active participation and our Q3 report will be published on October 28. And I'd like to also remind you of upcoming site visits. So, hopefully we will see many of you in Sundsvall and Shanghai in September. So, we wish you a sunny August.

Pasi Laine - Valmet Corporation - President and CEO

Okay. Thank you.

Operator

Ladies and gentlemen, that does conclude our conference for today, thank you for participating. You may all disconnect. Speakers, please stand by.

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