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# Rogers Communications, Inc. (RCI)

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## CORPORATE PARTICIPANTS

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*Analyst, Scotia Capital, Inc.*

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## MANAGEMENT DISCUSSION SECTION

Jeff Fan

*Analyst, Scotia Capital, Inc.*

Okay. We're going to resume with our next guest, Rogers' CFO, Tony Staffieri. Welcome, Tony.

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Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

Thank you, Jeff. Good to be here and thank you for having us.

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## QUESTION AND ANSWER SECTION

Jeff Fan

*Analyst, Scotia Capital, Inc.*

Q

I think the first question that's on investors' mind is regarding the state of the wireless industry and your Wireless business and particularly about subscriber growth. I think we've heard about what's driving the market growth, population, penetration, secondary devices, so we probably don't need to go into that too much. But in terms of the overall market growth, how do you see it the industry playing out in 2019, do you see net adds continuing to go up, stable, maybe I'll just start there?

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Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

A

Sure. I think we continue to see a healthy backdrop for the wireless industry. As you said, there are some fundamentals that are still there that continue to drive it, notably the continued lower penetration rates in Canada vis-à-vis countries like the U.S. And we continue to believe that structurally there's no reason why we shouldn't be there. Immigration continues to do well and I can't state enough the emergence of secondary devices, having a personal phone in addition to the work phone something that has been a trend in the U.S. for some time and we see that picking up in earnest. And so that led to on a subscriber basis pretty healthy growth, about 5.7% in 2018. We continue to see good trends into 2019. They may not be at the same levels, but still healthy growth overall. I think Q1 is going to be a tough one to read because Q1 is typically a very slow quarter and seasonally it's the lowest volume quarter.

So, I don't think necessarily Q1 will be an indicator of the full year, but we think all the fundamentals are there on a subscriber basis to see continued trend. And I would add importantly, while we talk about subscribers, it's a

backdrop to service revenue and that's really what we're focused on. The industry grew a healthy 5% overall in Canada in 2018. And so we stay focused not only on subscribers but that number as well. The other piece of it being the ARPU growth, and so it's both of those that we continue to see good prospects.

Jeff Fan

*Analyst, Scotia Capital, Inc.*

Q

On the lower volume for the first quarter, how should we think about it, because I think one of your comments last week at another event was that a year ago, there was some strength off of a weaker Q4 the prior year. So, is there any way that how we should think about Q1 compared to a year ago?

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

A

Yeah, to sort of reiterate it, as I said, Q1 is seasonally a low volume and so it's more of a caution, not to ever read too much into the first quarter. Last year what we saw, you may recall in the fourth quarter of 2017, very heavy promotional activity that continued in the industry into Q1. And I would say there was a bit of frenzy at least for about half a quarter of Q1 last year.

Jeff Fan

*Analyst, Scotia Capital, Inc.*

Q

Okay.

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

A

For us, we had some catch-up to do in the first quarter. So you may recall we had systems limitation in the fourth quarter. So that meant a spillover of volumes for us into Q1 of last year. And you may recall we had significantly good loadings in Q1 of last year. And so if someone is looking at a year-on-year comparison, it's more of keep that in mind in terms of an industry phenomena, but also a phenomena that impacted us last year. So, it's more about just level setting the expectations.

Jeff Fan

*Analyst, Scotia Capital, Inc.*

Q

Okay. The ABPU or ARPU trends, Rogers has been stronger than a couple of your national peers. What's been driving that and can you see that continuing through this year as well?

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

A

At the very core, it's really about data usage and continuing to encourage our customers both the consumer and the enterprise side to be comfortable with using data. And when you look at Canadian usage on a per subscriber basis relative to say the U.S., we'd sit at about a third and some quarters, a quarter of where the U.S. is at. So we see continued headroom. Much like the comment I made on penetration rates of subscribers, similarly on data usage, we have good headroom for growth and ultimately that's been the core of it and getting customers use more move up on the monthly service fee, taking away the things that dampen usage, things like bill shock on roaming and those types of things that we've done a good job over the last several years of removing those. Digital apps that let the customer know where they're at relative to their buckets and then making it easy for them either through an app or online being able to move up into some of the bigger data buckets.

Jeff Fan

*Analyst, Scotia Capital, Inc.*

Q

Okay.

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

A

So that's been the core and that's really what gave us some pretty good ARPU and ABPU growth in 2018. I will say we continue to be focused on ARPU rather than ABPU. It's just a much more fundamental focus on service revenue, which we believe is what really matters. So as we look to 2019, we continue to see good growth for us in terms of growth. I've said before in the first quarter, you might see a bit of a slowdown relative to Q4 but we certainly expect to be on the positive side of the growth ledger with continued growth into the rest of the year.

Jeff Fan

*Analyst, Scotia Capital, Inc.*

Q

Okay. You comment about focusing on more ARPU over ABPU. I mean, this is a debate that I think is emerging. Why do you think that that's the case? I mean, I don't disagree with you, but I think for the audience that probably needs a little bit of clarification of what differentiates the two metric and why you think ARPU is more important?

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

A

Sure. I think as you said, look they both have a role, but ABPU is inflated to the extent that more and more of your monthly service fee is to cover the cost of the handset. As cost of handsets have grown over the last several years, what we've done is try to make it easier for the consumer. So the embedded subsidy, the inherent subsidy of what is really free to the consumer has stayed about the same, but what we've done is made it easier for the consumer to pay less at the till and then increase the monthly fee.

Jeff Fan

*Analyst, Scotia Capital, Inc.*

Q

Yeah.

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

A

And so it's really just a form of financing. And so ABPU gets inflated as a result of that. And so that's why we sort of say strip out the economics of financing and how much is actually related to the service connectivity that we provide which ARPU does because it largely strips it out in terms of the financing part.

Jeff Fan

*Analyst, Scotia Capital, Inc.*

Q

And you see both of those metrics growing to your comments?

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

A

Absolutely. We see both of those. We report on a blended ARPU and blended ABPU basis, but we see when you look at it underneath, we continue to focus on postpaid ARPU as well and we continue to see good prospects on that also.

Jeff Fan

*Analyst, Scotia Capital, Inc.*

Q

Your usage is driving – as you mentioned, your usage is still driving some ARPU growth. Some of your other competitors have said that they're seeing usage growth but they're also seeing overage offsetting that growth, therefore, net-net, it's declining. Is there something fundamentally different that you can think of between you subscriber base versus what your other national operators have that makes your usage growth drive the overall growth?

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

A

Yeah I mean, I won't – I'll leave it to them to describe sort of their phenomena. What I can tell you is what we see is the key metrics for ARPU growth are or two of the key metrics we look at is average user per subscriber and then what does the average data bucket per subscriber look like. And I would say over the course of the last year or so, with bonus data gigs that we've all been providing, what you see is an expansion of that ratio. And so what that means is there's less of a propensity for consumers to move up because they have ample room in their data buckets. And so what you see over time certainly if you look at Q1 and much less promotional activity in the market, I think what you'll see is a bit of cyclical activity in terms of usage moving up and it starts to lower that ratio. And then that bumps the consumer to continue to move up and so that's the phenomenon we do see and that's really been behind our ARPU growth.

Jeff Fan

*Analyst, Scotia Capital, Inc.*

Q

Okay. You also talked about higher cost devices and I think there's no change in the trend there, although devices coming out are well into over \$1,000. And therefore, the volume and the mix of subsidies is skewing towards more higher end devices, more expensive devices, and therefore, your subsidy spend continues to increase. How do you see that playing out in 2019? Because I think we saw that continue to creep up through 2018 and I think the concern from investors is there's too much spending going on from a cash flow basis.

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

A

Yeah. I think that's why it's important to sort of separate out what the true subsidy is versus what's actually being financed. And that's where ARPU can be helpful. So, on the face of increasing handset costs, we've made it easier for the consumer, as I said, to roll some of that upfront cost into a monthly fee. And so when you look at the range of fee structure, it starts with BYOB which obviously is no subsidy at all. And then, there's you pay a higher amount at the till for the handset. And that's the entry point and then we have the ultra max tier which gives you the least amount of upfront payment, but it's embedded. So, there's a small – the way to think about it is there's a balance sheet piece of it because we're paying for the handset upfront. There is a small margin I would say that covers cost of capital in doing that. And so, I think it's important to sort of separate out the two of them. And then, finally on the back end, we closely monitor the receivables and how that's doing and is there a loss ratio that we need to be worried about. And the answer on that is, no. So those are all the metrics, so we look at the whole economic model and it continues to work well.

Jeff Fan

*Analyst, Scotia Capital, Inc.*

Q

And in terms of the subsidies, it's probably no change in how subsidies will, in terms of the level, increasing year-on-year, [indiscernible] (00:11:34) continue to see subsidies increase, is that the fair way of looking at it?

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

A

I would say subsidy has stayed about the same. So, notwithstanding the handset price going up, the true subsidy that goes into the lifetime value model has stayed about the same. And so we've been very disciplined in making sure that increased handset costs are factored into the monthly service fee.

Jeff Fan

*Analyst, Scotia Capital, Inc.*

Q

Okay. One other question that we hear a lot is Shaw and Freedom expanding into Western Canada. I know your focus – your bigger shares is obviously in Ontario, but you also have pretty significant share in Western Canada, particularly in BC. How is Rogers prepared against that insurgence by Freedom and Shaw in Western Canada?

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

A

Well, we look at – we compete with numerous players across the nation and so we continue to focus on acquisition and retention strategies across the nation. There are nuances to them. I don't know that Freedom brings anything new to the game. And so whether it's Ontario or the West, sort of a similar play, their value proposition has been focused on discounting while at the same time, significantly increasing the subsidy. And long term, that's a tough model to make money on. And so, it's a combination of meeting them on the price point where it makes sense, but we continue to focus on the value proposition that has always worked well for us, having a terrific leading network, points of distribution, customer service to sort of name the top three. And I think those are the ones that really get reflected in ARPU and churn as kind of the key value metrics. And so long term, we'll continue to stay focused on a balance of all the metrics, not necessarily just subscriber loadings.

Jeff Fan

*Analyst, Scotia Capital, Inc.*

Q

Okay. And you expect to see churn to continue to see some improvement through this year as well?

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

A

We do. The customer experience piece of it has been a significant focus for us and we go through in our weekly and monthly meetings, what are the top drivers for customers leaving this week, this month and tackling those and getting on top of them and it's been a healthy recipe to deliver consistent churn reductions and we intend to continue on that trend into this year.

Jeff Fan

*Analyst, Scotia Capital, Inc.*

Q

Okay. The CRTC started a process to review the MVNO file a few weeks ago. I think as you and I've talked about, it's a very – it's a challenging model and from a regulatory process, it may even take a while to play out. But any thoughts on what they're looking at from Rogers' perspective?

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

A

Well, I think the – it's going to be a long process. They've said the hearings will start in January of 2020. And so we're optimistic that it will be a thoughtful and thorough process. But it is going to be a process. Our view of it is we do not think mandated MVNOs are healthy for the industry or for the country. We just haven't seen anywhere

where it's worked out well long-term including forward consumers. It's no coincidence that we have some of the best networks in this country. And that's been on the back of a regulatory framework that has encouraged investments, some of the changes in the tax depreciation laws that the government recently announced, continue to encourage that type of investment and we're taking advantage of that by extending the reach of our network into rural areas. And so you look at kind of what a mandated MVNO could have in terms of investment and quality of networks and we don't see any evidence elsewhere where that's worked out.

Mandating MVNOs is certainly the first step, the second would be at what rates and I think that's an important one as well. What we have seen – to some extent we've had a mandated network sharing on the wireline side as well, and if we look to that as any type of precursor what we see are rates that are fully costed with a cost of capital return. And that really hasn't disrupted the wireline Internet side of the market in anyway. And so there are puts and takes to it, but on balance we continue to reiterate that we think the CRTC had a right decision in Sugar Mobile and you can expect us to be fully engaged.

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Jeff Fan

*Analyst, Scotia Capital, Inc.*

Q

Onto networks and network sharing, you and I at this stage talked about it for the last couple of years now and then I think the view wasn't necessary. As we get closer to that 5G world I think speed and speed capacity fiber becomes increasingly more important, those components to deliver a good 5G network, is there any – how do you think about network sharing in that context? Are we closer to potentially having that as an event or do you still believe that having your own independent network is the way to go?

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Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

A

I think, look we'll always look at the potential for a network sharing and see if the economics make sense. We haven't seen any model where it makes sense for us. And in fact I'll go beyond that to say that in a 5G world, we see owning a national network as being a competitive advantage for us. Most of the 5G business case is going to revolve around enterprise and enterprise solutions that can be delivered on a national basis. And so we think owning our network across the nation is going to give us an advantage to do that quickly and more succinctly depending on where the customer needs are going to be.

In terms of fiber, we've certainly been investing and continue to invest aggressively in fiber where it makes sense which is going to be mostly in the urban centers. But we continue to see just as we use today microwave as continuing to be a healthy solution for it particularly in rural areas. The vast advancements we see there delivering speeds of up to 20 gigs and so it will be a key component of a 5G network for sure. So it will be a combination of fiber and microwave, but we don't see ourselves being disadvantaged in anyway.

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Jeff Fan

*Analyst, Scotia Capital, Inc.*

Q

On your comment about owning your 5G network is more important or owning your network in a 5G world is even more important. Can we go into that a little bit and the thinking like is implicit in that comment that you think the 5G opportunity from a revenue perspective is so significant that whatever costs it may take even if it's a little bit more building your own justifies it?

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Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

A



Well let's start with the last part of the comment and then go backwards. So there's this notion that somehow network sharing provides a cost advantage and I think if you were to look at the way it's played out in the Canadian industry, there really isn't any evidence to suggest that. If you were to look at our capital intensity ratio over the last 10 years and compare it to our two incumbent competitors, our capital intensity ratio over 10-year period is within one point of each other. And so – and that's at the same time that we've expanded margins considerably. So if there's a cost thesis on network sharing, it hasn't played out in practice. Keep in mind that while the concept is you're spending less on a network, you do have twice the amount of customers riding on it and so it impacts that piece of it.

As we think about 5G, keep in mind, 5G will be evolutionary. So it's going to be built on top of a 4G, 4.5G network and it isn't going to be unlike 3G and 4G, all of a sudden, it shows up today and it's ready to go as a 5G network, it's going to be think about it as expanding into certain areas and use cases before. And so networks will interchange between 4.5G and 5G seamlessly. And so as the revenue opportunity materializes and as I said, as a business use case presents itself, then we'll be able to get on top of that business and make the investment depending on what that use case requires and where it requires that use case.

Jeff Fan

*Analyst, Scotia Capital, Inc.*

Q

Okay, fair enough. Are there any questions out there, I'm going to turn it over to the audience, see if any questions on wireless before I switch gears over to cable. No? We're going to continue. On Ignite, I think we've heard you say and Jorge as well on stage just previously, the metrics on Ignite TV and the subscribers that are bringing in you guys are quite happy with and the economics are quite good. This question I left it to you. I didn't ask Jorge, given use in technology but what's been the return to Rogers on that partnership with Comcast, can you talk about each of the different components at least from a financial perspective.

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

A

Sure. Let me touch on it conceptually and then I can get into the financials of it. Conceptually, we've always said that the cable business more and more and it is materializing for us and for other players is being driven by Internet. And so we are very much focused on our competitive advantage across our footprint has served us well. We continue to increase penetration notwithstanding our competitors' deployment of fiber. We continue to increase our Internet penetration rates consistently every quarter for almost three and a half years now. And so what we see with X1 video and what you heard this morning all the other products that come with it in terms of a roadmap whether it'd be Flex, xFi and Xhome is really about adding more utility value to that Internet connection.

And so strategically it continues to work well. The model economically that we have with Comcast is largely a variable cost model so that once you get past the upfront what I would call integration, Comcast clearly develops the product and we integrate it into our billing and backend systems et cetera. Once you past that fixed cost, it's largely a variable cost model. And so that works extremely well, it gives us an opportunity to tap into a product set that we would not have the resources alone given the size of us in Canada frankly to develop the scale of – and quality of those products in-house.

And so on a per sub basis, it continues to work well for us. In the early days, you'll continue to – you won't necessarily see that come through in the financials and it'll probably take a good 12 to 18 months while we ramp up volumes on Ignite to be able to sort of see that impact. But I think in summary, I would say we continue to see opportunities for margin expansion in our cable business. Over the last two years in 2017 and 2018, we had committed and delivered on a margin expansion program for cable alone of about 200 basis points and we



delivered on that. Over the next little while, it may not be as aggressive as that. But certainly including the Ignite deployment, we continue to see opportunities to expand margins in Cable.

Jeff Fan

*Analyst, Scotia Capital, Inc.*

Q

Are you past that fixed costs stage at this point now that you're I guess nine months into the launch?

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

A

We largely are on Ignite and there always be a little bit as we continue to deploy the next round of products. So that piece of it – that's been weighing on our cable capital intensity has gone away and the next big opportunity for us is CPE and installation.

Jeff Fan

*Analyst, Scotia Capital, Inc.*

Q

Right.

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

A

And when I've talked about how today the average home costs us about CAD 1,200 with our legacy product. And as we move to Ignite TV, that cost is under CAD 400 and declining. So it's a very good cost model for us and a key ingredient for us to continue to bring CapEx intensity down in the coming years.

Jeff Fan

*Analyst, Scotia Capital, Inc.*

Q

So it sounds like the factor to drive for this on the CPE CapEx is for you to shift away from the legacy cable service overall to selling Ignite. At what point are you guys comfortable in crossing over to, say, if you're in Rogers, if you're interested in Rogers video service, Internet service, you're going to become an excellent customer and we're not adding in more to legacy. So the stop sell of the legacy service, when you perceive that?

Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

A

Yeah. I don't want to provide a specific date for a competitive reasons, but to your point, the economics on the Ignite TV version are so compelling and the metrics we look at in terms of performance continue to meet or exceed our expectations. If we were to look at 60-day early churn, numbers are way better than our legacy product. We look at ARPA. ARPA is way up relative to our legacy platform. We look at – and you heard this morning video consumption. It moves up significantly with Ignite TV. And so all the metrics are there and it would indicate that we move to stop sell as early as we have the capacity to do that, so keep in mind we're trying to do this at the same time of having a terrific customer experience. We are still installing a product. And so we continue to ramp the training of our technicians, et cetera. So all that to say without giving a specific date, think about it as sort of towards the latter back half of the year of moving to stop sell of legacy.

Jeff Fan

*Analyst, Scotia Capital, Inc.*

Q

Okay. And CapEx in terms of the – in cable, I think is an area that investors focus a lot on. Sounds like as you get through that, that's where you start to see the directional change in CapEx intensity for cable. Can you talk about the medium or longer term direction of where that may land?

**Anthony Staffieri**

*Chief Financial Officer, Rogers Communications, Inc.*

A

Absolutely. We said and we continue to think about cable capital intensity and as a normal resting place, sitting somewhere between 20% and 22% for where the rest of the Canadian industry is that and over time maybe we're moving slightly below that. But that's our direction of travel. Some of the big pieces that I've talked about the integration costs are behind us. Some of these platforms, the CPU one will come in quickly over the next little while. We have taken the opportunity to accelerate some of our node-splitting for various cost advantage reasons. But over the course of three years roughly, you also expect us to fall within the ranges that that I've talked about.

**Jeff Fan**

*Analyst, Scotia Capital, Inc.*

Q

Okay. And final question is on capital allocation, you returned to dividend growth early this year for 2019, I think that was good news for the market. You also have an NCIB now in the market. How do we think about capital allocation as you go beyond 2019 as you start to see CapEx come down, free cash flow growth continuing.

**Anthony Staffieri**

*Chief Financial Officer, Rogers Communications, Inc.*

A

Well I think first and foremost the focus is on getting the fundamentals right. The increase in dividend that we did is really on the back of good cash flow growth over the last little while and an outlook of continued cash flow growth as we reflected in the guidance that we provided. So we stay focused on the fundamentals grow top-line, expand margins and grow cash flow. And then with that, we'll have a decision periodically to make in cash return to shareholders.

The two primary ones being dividend increases or share buybacks and we'll always consider both. And it will depend on the fundamentals that you would expect us to think about in terms of share buyback where are we at in terms of trading price vis-à-vis our long-term expectation of value and the other is the where the dividend sits at in terms of yield. And so, we'll do what is optimal. We have been clear though that we do not want to get into a long-term cycle of commitment on dividend increases. We'll make the right decision at the right time.

**Jeff Fan**

*Analyst, Scotia Capital, Inc.*

Okay great. In the interest of time I think we will stop it there. Tony, thank you very much for being here.

**Anthony Staffieri**

*Chief Financial Officer, Rogers Communications, Inc.*

Thank you.

**Jeff Fan**

*Analyst, Scotia Capital, Inc.*

Great discussion.

## Anthony Staffieri

*Chief Financial Officer, Rogers Communications, Inc.*

Appreciate it.

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