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Global Payments, Inc. (GPN)

RBC Capital Markets TMT Conference

CORPORATE PARTICIPANTS

Cameron M. Bready
Chief Financial Officer & Executive Vice President

OTHER PARTICIPANTS

Daniel R. Perlin
RBC Capital Markets LLC

MANAGEMENT DISCUSSION SECTION

Daniel R. Perlin
RBC Capital Markets LLC

Good to go? All right. Well, thank you to everyone again for coming out to the RBC conference. For those of you who I have not had a chance to meet, although I recognize a lot of faces here, my name is Dan Perlin, I cover the computer services and IT consulting space of RBC. We're very delighted to have with us Global Payments today, which has quite frankly been one of the best performing stocks in our universe this year. So, we appreciate that.

From Global Payments, we have Cameron Bready who is the company's CFO. He has been there for a few years now, so...

Cameron M. Bready
Chief Financial Officer & Executive Vice President

No...

Daniel R. Perlin
RBC Capital Markets LLC

18 months.

Cameron M. Bready
Chief Financial Officer & Executive Vice President

Only 18 months.

Daniel R. Perlin
RBC Capital Markets LLC

We're going to put a lot of things in terms of the performance attributable to you, so we appreciate that, Cameron.

QUESTION AND ANSWER SECTION

Daniel R. Perlin

RBC Capital Markets LLC

Q

So, let me start at kind of the high level and then we'll kind of funnel this thing down. You started off with this very purposefully built strategy to kind of transition the company's model to this direct distribution. And I think that's well understood. What I want to know is really, do you believe that it's actually differentiating you from your competition today, and if we could think about that in the context of the U.S., and then think about it in the context of Europe and then Asia?

Cameron M. Bready

Chief Financial Officer & Executive Vice President

A

Sure. First of all, Dan, thanks very much for having us and thanks everyone for joining. We appreciate your interest in Global Payments and look forward to seeing many of you hopefully throughout the day. So, first of all, I would say you're absolutely right. Obviously, the strategy that we've set out has been designed to purposefully make this move to more of a direct distribution footprint around the globe. Interestingly, we've always had that internationally. It was really the U.S. market where historically less of our distribution was really direct.

And certainly, we had in some ways outsourced "revenue to third parties." And that's really where the biggest I think change has occurred in the distribution mix and the business over the past few years. It has been very purposeful, and more importantly, I would say from my point of view, and as we think about moving to more of a direct distribution model, it's not simply good enough to be or have direct distribution. That distribution needs to be differentiated, and we believe we are well differentiated in the markets we serve today, and I'll start with the U.S.

A lot of the investments we've made to really pivot to more of a direct distribution mix in the U.S. I think we used to be probably 57% direct. We're now 75% direct over the last few years has really been geared towards investing in integrated payments. We acquired APT, we acquired PayPros, we've merged those into our OpenEdge platform now, and that very much is a differentiated distribution channel for us.

The integration of our payments technology with business software solutions that help small- to medium-sized enterprises operate their businesses more efficiently, more effectively is a differentiated product. Our ability to innovate and tailor vertically specific solutions in the integrated channel, I think is unique and distinctive, and it's obviously I think positioned us to be able to grow that business in the U.S. markets at a pace well above the market rate of growth, probably three times or more the rate of market growth in the U.S.

So from our point of view, we not only transition to direct distribution in the U.S., we transition to a very distinctive distribution model, that we think has a long runway for growth. Today, I think we're probably on average less than 10% penetrated across the 60 or 70 different verticals that we operate in. We have over 2,000 different software partners. We have a number of years in front of us, where we continue to grow that business at a pace that well exceeds kind of the market rate of growth.

As we pivot towards Europe, I think our distribution in Europe has always been relatively distinctive. It depends on the market in which we're operating to some degree. In the UK, I think we have very strong referral relationships with HSBC. It helps to drive organic sales growth in that market, but perhaps more importantly in a market where relationship-led distribution is still the predominant go-to-market strategy. In the UK, we have

differentiated products and solutions that we are able to offer our merchants and offer our customers, largely because we're using a common technology platform globally.

So any new product we're innovating in virtually any market we operate in around the world, we can easily transfer that and bring that new product or new capability to a new market. So where in some markets like the U.S. where we lead, where technology really leads our distribution, in other markets that are more relationship-led, we really look at technology in our products and solutions to differentiate our relationship-led distribution.

Daniel R. Perlin
RBC Capital Markets LLC

Q

Right.

Cameron M. Bready
Chief Financial Officer & Executive Vice President

A

And that's very much been the case in the UK. As we think about Spain, another good example I think of where we had distinctive distribution, we're partnered with the CaixaBank, and they are an absolutely fantastic partner that are helping to grow that business on a transaction and volume basis mid to high teens over the past many quarters. They're a fantastic partner because they aggressively promote and sell merchant acquiring capabilities through their bank branches, which creates a very good funnel for obviously sales opportunities for the business in Spain, while at the same time, they have worked with us to invest in new products, new innovation, new solution for the Spanish markets that have also served to help differentiate our product offering in that marketplace relative to the other competitors that we face day-in and day-out.

Daniel R. Perlin
RBC Capital Markets LLC

Q

Okay.

Cameron M. Bready
Chief Financial Officer & Executive Vice President

A

If we look at Asia, again, I think we've really over the past couple of years served to accelerate growth in Asia by again investing in more technology-enabled distribution, in particular with Ezidebit in Australia. Ezidebit is very similar to the OpenEdge platform we have in the U.S., largely an integrated payments platform that allows us to again go to market with a differentiated technology solution in market, in Australia, that's helping to drive and accelerate the overall rate of growth for our entire Asian business.

When you look at our traditional Asian business again, we primarily go to market through relationship-led distribution. But then again, utilize our unique and differentiated product suites that we're able to leverage again on the common technological platform we operate around the world to bring those new products in a very ubiquitous way to new markets in Asia. Again, that helps to create a distinctive offering in the marketplace.

Daniel R. Perlin
RBC Capital Markets LLC

Q

And as we think about bringing it back to the U.S., and we've got this integrated channel that you've been investing in, is that a situation where you look at it and you're partially self-cannibalizing the legacy ISO business that you have in those relationships? But also, that is really the fear pool from which we should be thinking about, you talk about 10% penetration, but the ISO mark is still pretty large in this space and looks pretty inferior to the

integrated model. So, what would you say to those two points, kind of self-cannibalization and that real opportunity set?

Cameron M. Bready

Chief Financial Officer & Executive Vice President

A

I do think in the integrated space, when we're gaining new merchants, there is an element of merchants are moving away from having an environment where they're using a business software solution to run their business and then they have the traditional brick sitting on the counter, with no integration, no connectivity between the two. And they may or may not be served by ISOs, but as we – I think all know the small-to-medium sized merchant landscape in the U.S. is largely served by ISOs today, and then, some other larger players like ourselves. So, I think there is an element to your point of, as we're gaining market share through the integrated channels, it's got to come from somewhere.

Daniel R. Perlin

RBC Capital Markets LLC

Q

Yeah.

Cameron M. Bready

Chief Financial Officer & Executive Vice President

A

There are instances, where we are gaining merchants who aren't accepting cards today, but I'd say predominantly we're gaining merchants who have a solution today that's non-integrated, who recognize the value proposition associated with the integration, and the incremental products and solutions that come with that and view that as a value-add that they're willing to move to. So, I do think there is an element of obviously market shift away from some of the ISO players to more of the integrated model. But I think that's as much as anything else indicative of a broader trend.

Daniel R. Perlin

RBC Capital Markets LLC

Q

Yeah.

Cameron M. Bready

Chief Financial Officer & Executive Vice President

A

Right, a lot of the ISOs in the marketplace today lack the scale and the ability to invest in new technology, innovation. They are largely competing on price, and as the market becomes more technologically-enabled, for a lack of better term, and as it becomes more complex, I think competing on price becomes a more challenged value proposition for them. More and more, I think small-to-medium sized customers are looking for solutions.

The more complex the environment gets, the more they are looking for solutions, the more they are looking for service, the more they are looking for someone to actually be an advisor to help them through that process. And I think that really plays to our strength. Our model is all about having I think innovative solutions, technology that is market-leading, while at the same time, providing a high level of service to our merchant customers, all for a fair reasonable price.

There's always going to be a market for low cost, no service, that's not the market we're trying to serve. And I think that market in my opinion is becoming smaller and smaller, as small- to medium-sized businesses, in particular, are needing more and looking for more out of their traditional merchant acquirer.

Daniel R. Perlin

RBC Capital Markets LLC

Q

So, we hear a lot about I think from you and others that you really are trying to become I think more of a technology company, it sounds like as opposed to just maybe pure payments. And the question that I have about that as fantastic as that sounds is what are the next ramifications for your business model? Because you've made enormous investments and this push to this new distribution model, but as you go to the next layer, what does that mean for your business model longer term?

Cameron M. Bready

Chief Financial Officer & Executive Vice President

A

Yes. And I think to some degree we're already at the next layer...

Daniel R. Perlin

RBC Capital Markets LLC

Q

Okay.

Cameron M. Bready

Chief Financial Officer & Executive Vice President

A

...to be candid and that was not-so-subtle subtext, I would say, at the investor conference we had a couple weeks ago, which is this is very much now a technology company.

Daniel R. Perlin

RBC Capital Markets LLC

Q

Yes.

Cameron M. Bready

Chief Financial Officer & Executive Vice President

A

We're a technology company. And I think more importantly, we at Global Payments have positioned our business such that as we move forward in time, more and more we're providing technology solutions to the marketplace that are focused on payments, but we're very much a technology development, technology innovation business that also does merchant acquiring.

Daniel R. Perlin

RBC Capital Markets LLC

Q

Yes.

Cameron M. Bready

Chief Financial Officer & Executive Vice President

A

And we've structured our technology stack, we've structured our strategy, we're focused on innovation in a way that's all geared towards being able to provide a full suite of payment technology solutions to merchants – excuse me, to be able to tailor those in a way that meets the needs of each individual merchant. We're not trying to create some standard product set that they have to or some closed-loop network or some hardware that they have to accept everything.

We believe in sort of modular technology. We think modular technology ultimately is going to prevail where software is really enabling us to provide differentiated solutions and tailored solutions for merchants. And one of

those solutions will be merchant acquiring. And that's where the business, I think, is moving as more and more technology is being deployed towards changing the payments landscape. I think it's very important for us to be a technology company.

The investments we've made have not only served to, I think, create an enhanced distribution capability and having more technology-enabled distribution. The other benefit of those investments is, we now have, I would say, worldwide stable of development resources, of software development teams that all are frankly in various markets around the globe that have really helped to transform this business away from being a traditional processor to very much being a technology development company.

Daniel R. Perlin
RBC Capital Markets LLC

Q

Got it.

Cameron M. Bready
Chief Financial Officer & Executive Vice President

A

So not only do we have the distribution, we also have the resources, skill sets and centers of excellence from a technology development point of view that are going to help us to be able to keep pace with the change in market and continue to drive our strategy more and more towards being a technology business.

Daniel R. Perlin
RBC Capital Markets LLC

Q

Okay. So Global over the years has been not the most consistent of companies. It has been as of late, and that I think has contributed much to the shift. But the question around visibility comes up alive. And it seems as though you have a lot of things that are kind of wind at your back that take you to next year and even into the year after that. How do we parse that? Is it partly the model that you've built? Is it pricing environments that you have, opportunities [indiscernible] (13:09) Europe as we talk about Spain and UK and maybe you can address those in a little bit more detail? And how does that play into your ability to meet this cycle guidance as you started to kind of create this term, so...

Cameron M. Bready
Chief Financial Officer & Executive Vice President

A

Sure. So just reflecting back on some of the commentary we had at our investor conference last month, I would say, we are highly confident in our ability to achieve the cycle guidance we've set forth. And just as a reminder for the group, we think we can grow organically top line net revenues mid-to-high single-digits over the cycle. With margin expansion, we'll drive operating income growth in the high-single digits, and when you couple that with our capital allocation strategies, we're very confident in our ability to compound low-double digit to mid-teen growth in cash earnings per share over the cycle which we generally define as a three- to five-year window.

So really our ability to achieve that cycle guidance all starts with execution. We are relentlessly focused day in and day out on execution in every market we operate in around the globe. And we feel as if the business is set up in a way, the strategy has been executed in a way that if we continue to execute the way we have over the past couple years, we are well poised to achieve the cycle guidance that we've provided, and we see opportunities in the business to potentially exceed that, and we've talked about a few of those last month as well, and I'm happy to elaborate on those in a moment.

I think what I would say to your earlier comment around visibility, certainly part of the reason we made the shift to a more direct distribution model is to have better visibility into where our business was going. When you've outsourced your revenue to a third-party, it's very hard to have visibility about where the business is going from one month to the next, one quarter to the next, one year to the next.

Daniel R. Perlin
RBC Capital Markets LLC

Q

Yes.

Cameron M. Bready
Chief Financial Officer & Executive Vice President

A

So I think we have much better visibility as to where the business is going around the world, because we largely control our distribution around the globe, and certainly what's going to drive performance of the business, we very much control that distribution. We're 90% roughly direct distribution around the globe. So in terms of what's going to drive performance of the business, we control that.

Daniel R. Perlin
RBC Capital Markets LLC

Q

Yes.

Cameron M. Bready
Chief Financial Officer & Executive Vice President

A

So a lot of it boils down to how well are we executing will translate into our ability to achieve that cycle guidance.

The other comment I would make is I would say by and large the backdrop that we're operating in is relatively constructive.

Daniel R. Perlin
RBC Capital Markets LLC

Q

Yes.

Cameron M. Bready
Chief Financial Officer & Executive Vice President

A

I think in the U.S. market, I think pricing trends are relatively stable. In an environment where the payments landscape is becoming more complex, there's more opportunity for us, I think, to drive value-added services with our customers and differentiate ourselves in the marketplace from others that we compete in.

In Europe, as we talked about before, certainly a very constructive backdrop there between the regulatory changes that are lowering interchange across the market, the goals to create a more common European marketplace and payments landscape through the SEPA regulation. All of those things I think are favorable tailwinds for the business as we look to continue to grow and expand in Europe, and I think as we've talked about, we're particularly bullish of the prospects for continuing to grow our business in Europe over the next several years.

Daniel R. Perlin
RBC Capital Markets LLC

Q

Is UK pricing as big an opportunity as in Spain? I mean that's the key on everyone's mind.

Cameron M. Bready

Chief Financial Officer & Executive Vice President

Yes...

A

Daniel R. Perlin

RBC Capital Markets LLC

How much are we really going to get out of that?

Q

Cameron M. Bready

Chief Financial Officer & Executive Vice President

I think it is, first and foremost. So if you think about just the business roughly, it's probably 70% larger than our Spanish business, and we own 100% of it. So if you just start with that basic sort of math, and then I would say, yes. I mean, it has every prospect to be as meaningful as an opportunity as we saw in Spain. Now the other market dynamic is very different, right. We're more probably disproportionately exposed to small-to-medium size enterprise businesses in Spain versus our UK business where we're probably better distributed across the spectrum.

A

Daniel R. Perlin

RBC Capital Markets LLC

Okay

Q

Cameron M. Bready

Chief Financial Officer & Executive Vice President

And the market is going to react differently than the market in Spain. So it remains to be seen just how much benefit there is. But what I would say is, internally, yes, that benefit is nice, but end of day, regardless of whether it's 12 months, 18 months, 24 months, 30 months, it's going to be a transitory benefit.

A

Daniel R. Perlin

RBC Capital Markets LLC

Sure.

Q

Cameron M. Bready

Chief Financial Officer & Executive Vice President

Our goal is really focused more on how do we translate some of that transitory benefit into something that has a potential to create long-term value for our shareholders. So, we're more focused on – yes, some of that's going to flow through to the bottom line, and it is a nice tailwind as we look to the back half of fiscal 2016 and into 2017. But what are we doing as an organization to try to utilize some of that benefit to create long-term value. And we talked a little bit about that a few weeks ago at the investor conference around investing in our operating environment, investing in the customer experience globally, creating a more scalable operating environment that allows us to improve incremental margins in markets around the globe. But more importantly, allows our customers to have a common experience wherever they interact with us in whatever market around the world.

A

All those things I think are going to help drive long-term value in the business. They're going to create a more efficient cost structure. They're going to create a more scalable environment. They're going to help us to achieve the sustainable margin expansion that we're targeting in the business, and part of the way we're funding that

candidly is through some of the transitory benefits we're seeing with the regulatory changes. We think that's the right thing to do for the business long term.

Daniel R. Perlin

RBC Capital Markets LLC

Q

Yes. As you think about one of the things that's driven your stock is your ability to basically exceed expectations, right. So we've come to appreciate this kind of beaten race story from you guys. When we talk about cycle guidance, you guys feel like it's pretty much in your wheelhouse is what I'm hearing. What's the one or two kind of things as we think about as outsiders looking in that are going to be the key tenants to driving that number above – well above potentially cycle guidance.

Cameron M. Bready

Chief Financial Officer & Executive Vice President

A

Yes, I'd say a couple things. One is, we don't go in any particular month, quarter, or year assuming that every one of our businesses and all markets around the globe are going to meet or exceed our expectations.

Daniel R. Perlin

RBC Capital Markets LLC

Q

Yes.

Cameron M. Bready

Chief Financial Officer & Executive Vice President

A

When they do, I think the earnings power of the business is very, very strong. I think Q1 was a very good example of that. When you look across our businesses around the globe, by and large they met or exceeded the expectations we had for them. So when things go well in most of our markets, the earnings power of the business is quite strong.

Daniel R. Perlin

RBC Capital Markets LLC

Q

Okay.

Cameron M. Bready

Chief Financial Officer & Executive Vice President

A

So I think if we see positive momentum, we don't expect it, but when we see a positive momentum in virtually all the markets that obviously has the potential to help us exceed the cycle guidance that we've established. When you're managing a portfolio, it's like anything else, you don't expect everything to perform perfectly, but when it does, it certainly is nice to see.

I think the other opportunities that we see for obviously exceeding the cycle guidance that we've established really stand back to the things we talked about at the investor conference. We think we have a unique ability to globalize the integrated business model in a way that's going to help to create again a differentiated offering in more mature markets around the globe. We've brought OpenEdge to Canada, and that's I think progressing as we would have hoped and expected. We're starting to make progress. We intend to bring it to the UK in the near term, again, to help to create a technology led distribution channel in that market, to help create a differentiated technology offering that we think will help to create a distinctive offering in our UK business.

Obviously with Ezidebit in Australia, we're looking to bring that to Hong Kong, potentially Singapore as well and continuing to globalize that integrated ecosystem to create that differentiated offering in those markets where we feel like this sort of integration has value and there's a market for it and that we can replicate the same sort of success in a ecosystem that we created with the OpenEdge platform in the U.S. and in other markets internationally.

Daniel R. Perlin
RBC Capital Markets LLC

Q

Okay.

Cameron M. Bready
Chief Financial Officer & Executive Vice President

A

I think that's one real opportunity. The second opportunity I think is obviously continuing to expand our omni-solutions business. With the acquisition of Realex last March, we have what I would think most people would appreciate to be market leading technology from a card-not-present gateway point of view that we can now serve to bundle with our merchant acquiring capabilities to create a bundled product offering in markets on the continent in Europe, as well as UK and Ireland where we operate today, and then further bundle that with face-to-face capabilities in many markets in Europe and broader to provide, again, merchants with a complete card-not-present, card-present solution on a common platform, common technology, in whatever market they want to operate in around the globe.

Daniel R. Perlin
RBC Capital Markets LLC

Q

Okay.

Cameron M. Bready
Chief Financial Officer & Executive Vice President

A

And I think the common factor between both of those opportunities is I think they're relatively distinctive to Global Payments. I think we're uniquely positioned to be able to exploit these opportunities because of the mix of assets, technologies, and investments we've made over the course of time. I really believe that – and part of the reason we're so focused on investing in these is we have a unique opportunity to exploit them in ways that our other competitors probably can't match.

Daniel R. Perlin
RBC Capital Markets LLC

Q

Okay.

Cameron M. Bready
Chief Financial Officer & Executive Vice President

A

And from my point of view, as a CFO of the company, I'm always looking for ways to invest in those things, where I think we have a distinct competitive advantage, where we can create something that is unique and differentiated and help accelerate growth above and beyond what we've targeted with the cycle guidance.

Daniel R. Perlin
RBC Capital Markets LLC

Q

All right.

Cameron M. Bready

Chief Financial Officer & Executive Vice President

A

So, that may or may not contribute in the near-term to the cycle guidance, but I certainly think about both of those initiatives helping to sustain growth levels similar to what we've talked about in the cycle guidance over a longer period of time. So, whether they contribute over the next three years to five years meaningfully, I'm less concerned about that, more concerned about how are they helping to position this business for the period beyond the cycle guidance, to continue to drive sustainable growth over a longer period.

Daniel R. Perlin

RBC Capital Markets LLC

Q

Okay. So, we're down to a minute-and-a-half here, and I haven't even gone through half my questions. The question that I want to ask is about....

Cameron M. Bready

Chief Financial Officer & Executive Vice President

A

Are you suggesting I'm longwinded?

Daniel R. Perlin

RBC Capital Markets LLC

Q

No.

Cameron M. Bready

Chief Financial Officer & Executive Vice President

A

That was very subtle.

Daniel R. Perlin

RBC Capital Markets LLC

Q

You're very thoughtful. Chase Pay. Right. We all have heard about it, it's kind of the big news. The question I have is that, it does seem to be introducing a more simplified pricing model into the mid-tier market potentially, and that equals transparency and transparency in payments is typically not good, right. I know you'll tell me otherwise, but I think you make a lot more money, right, when you kind of make it convoluted. So, the question I have is what are your thoughts around that? How do you think about competing against a more simplified pricing model if in fact that comes true and because they can do these honest transactions, do you think they have a cost structure that puts you guys in a bad position?

Cameron M. Bready

Chief Financial Officer & Executive Vice President

A

Yeah, let me just start by saying to your first comment. I think we believe and view our pricing today to be very transparent. So, I don't want to – I wouldn't want to leave anyone with the impression that part of the way we're able to create value is having a convoluted structure that people can't figure out.

Daniel R. Perlin

RBC Capital Markets LLC

Q

Yeah.

Cameron M. Bready

Chief Financial Officer & Executive Vice President

A

I think the value proposition we have today is I think we offer people a lot of product, a lot of service, a lot of solutions at a fair price that is very transparent. So, just to deal with that upfront.

Daniel R. Perlin

RBC Capital Markets LLC

Q

[indiscernible] (24:29).

Cameron M. Bready

Chief Financial Officer & Executive Vice President

A

I think it's important to address that kind of out of the gate.

Daniel R. Perlin

RBC Capital Markets LLC

Q

Yeah.

Cameron M. Bready

Chief Financial Officer & Executive Vice President

A

But what I would say is, look Chase has the opportunity to do honest pricing today. They've had it for a long time.

Daniel R. Perlin

RBC Capital Markets LLC

Q

Yeah.

Cameron M. Bready

Chief Financial Officer & Executive Vice President

A

So, I don't necessarily think that's fundamentally different than what they've been – had the opportunity to do or have been able to do for some period of time. I think the wallet is really – again, it's another wallet. I mean to the extent that there is market interest and market receptivity to that wallet, our goal would be to enable our merchants to be able to accept that payment type.

Daniel R. Perlin

RBC Capital Markets LLC

Q

Okay.

Cameron M. Bready

Chief Financial Officer & Executive Vice President

A

As we do today with Apple Pay, Samsung Pay, Android Pay, PayPal, whatever the wallet maybe we obviously are focused on providing our merchant customers with the ability to accept payments in whatever form they feel they need to.

Daniel R. Perlin

RBC Capital Markets LLC

Q

Okay.

A

Cameron M. Bready

Chief Financial Officer & Executive Vice President

And I think we're very much form factor agnostic. Our goal is to enable all of those solutions for our merchant customers, and we again really think our ability to differentiate ourselves starts with software behind the point-of-sale and that all these wallets are terrific, but it's just another form factor for which our merchant can receive a payment, we continue to be focused on developing solutions around that that are value-added, that merchants are willing to pay for and that are distinctive. And I don't think Chase Pay in any way really changes that.

Daniel R. Perlin

RBC Capital Markets LLC

Okay, great. Fantastic story, tons of momentum, we're out of time. So thank you Cameron, so much, for being here.

Cameron M. Bready

Chief Financial Officer & Executive Vice President

Thanks again for having us. It's a pleasure to be here.

Daniel R. Perlin

RBC Capital Markets LLC

Thank you.

Cameron M. Bready

Chief Financial Officer & Executive Vice President

Thank you.

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