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pdvWireless, Inc. (PDVW)

Q3 2018 Earnings Call

CORPORATE PARTICIPANTS

Natasha Vecchiarelli

Investor Relations Manager, pdvWireless, Inc.

John C. Pescatore

President, Chief Executive Officer & Director, pdvWireless, Inc.

Morgan Edward O'Brien

Vice Chairman, pdvWireless, Inc.

Timothy Gray

Chief Financial Officer, pdvWireless, Inc.

OTHER PARTICIPANTS

Mike Crawford

Analyst, B. Riley FBR, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen, and welcome to the pdvWireless Third Quarter Update Conference Call. At this time, all participants have been placed on a listen-only mode, and we will open the floor for your questions and comments after the presentation.

It is now my pleasure to turn the floor over to your host, Natasha Vecchiarelli, Director of Corporate Communications. Ma'am, the floor is yours.

Natasha Vecchiarelli

Investor Relations Manager, pdvWireless, Inc.

Thank you. Good afternoon and thank you all for joining us. With me today are Brian McAuley, our Chairman; Morgan O'Brien, our Vice Chairman; John Pescatore, our President and CEO; Tim Gray, our CFO; and Rob Schwartz, our Chief Strategy and Development Officer.

Before we begin, I'd like to highlight that during today's call, we will refer to certain non-GAAP financial measures. We've provided reconciliations to the most directly comparable GAAP financial measures in this afternoon's earnings release, which is available on our Investor Relations page.

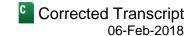
As a reminder, the following discussion may contain forward-looking statements and our actual results may differ materially from our current expectations or those implied. Information regarding factors that could cause such differences can be found in our SEC filings.

With that, I'd like to turn the call over to John.

John C. Pescatore

President, Chief Executive Officer & Director, pdvWireless, Inc.

Q3 2018 Earnings Call



Thanks, Natasha. Hello, everyone, and thank you for joining us this afternoon. Today we'll be highlighting our results for the quarter ended December 31 and sharing information on the progress we've made across our strategic priorities.

Our highest priority remains achieving success with our regulatory initiative aimed at modernizing the 900 megahertz band. At the same time, we continue to identify compelling enterprise use cases for our spectrum in a broadband configuration and while mindful of near-term operating cost, look to increase sales of our current product offerings. I'll provide a brief update and then Morgan will share his view of where we are in the process and the kind of compelling opportunities that can be addressed by reconfiguring our spectrum.

As we prepare for a broadband future, we continue to draw on a team of world-class advisors that collectively have been instrumental in support of our mission. In that regard, I'm pleased to announce that Jack Markell, former two-term Governor of the State of Delaware and wireless industry innovator has joined us in a strategic advisory capacity.

As a senior adviser to the company, Jack is focused on key strategic and regulatory objectives. His extensive experience and track record in both the public and private sector makes him a unique and vital resource for pdv and we're very pleased to have him on the team.

Turning to our Dispatch and Solutions business, during the third quarter, we saw an increase in service revenue and as of today have approximately 6,500 units in service. The third quarter represented our best sales order activity to-date. Therefore, as of today, we also have a healthy backlog of units in the fulfillment process.

Churn remained relatively low through the end of the third quarter and network usage continues to grow with push-to-talk calls approaching close to 3 million for the quarter. Additionally, we were pleased to see a number of our dispatch customers and dealers providing their support on the record relative to the FCC's notice of inquiry.

We remain mindful of the progress we're making toward broadband and the importance of maintaining financial flexibility during this time. Given that, we continue to monitor our cash burn, balancing the need to maintain adequate levels of cash availability with focused and prudent uses of cash.

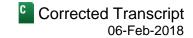
As we've shared, our commercial outreach to the utility vertical continues to show promise. We are seeing real interest in private broadband solutions which is helping us gain momentum on the regulatory front. Beyond the positive impact to our proceeding, these opportunities have the potential to lead to valuable long-term partnerships.

Our broadband interests lie in providing dedicated private networks optimized around the specific communication needs of critical infrastructure entities and enterprises. Those networks can be an essential, secure and solid foundation for critical utility grid and other enterprise communications applications.

The substantial need for these solutions is echoed on the record of our proceeding. The positive reinforcement we continue to see speaks to both the dire need for more spectrum and for it to be put to its best and highest use, ultimately creating more broadband coverage and solutions in the marketplace.

Turning to our regulatory efforts, progress continues to be made. Since we last spoke, additional comments have been filed on the record, all of which were notably supportive. As an example, I'd like to highlight one in particular which is the letter filed on behalf of the Long Island Power Authority or LIPA.

Q3 2018 Earnings Call



LIPA's letter emphasized the successful spectrum exchange agreement we collectively reached which mirrored a swap that we did with PSE&G Services Company in New Jersey. These swaps will allow both companies to seamlessly deploy their new mobile radio systems within the proposed two-by-two section of the 900 megahertz band. They are also tangible evidence of the constructive effort we've been making in the industry and prove that incumbents are able to maintain their narrowband operations while co-existing harmoniously with pdv.

It's important to note that both of these entities are large utilities within spectrum-constrained major market areas like New York and New Jersey. With our commitment to protect incumbents, both entities proactively and willingly decided to relocate to the lower portion of the band in support of our developing a private carrier broadband solution in the upper portion of the band.

This is a perfect example of the kinds of positive outcomes we can reach with incumbents when we're able to understand their needs and engage in a dialogue focused on attaining mutually beneficial business relationships based upon trust.

Additional supportive comments from other utilities and large commercial enterprises highlighted the need for dedicated private wireless broadband solutions that are not always available on commercial systems offered in the marketplace today.

These types of entities can require levels of reliability, redundancy and coverage that exceed typical wireless commercial carrier standards. Typical carrier standards are generally not intended to meet the mission-critical requirements for network access including ruthless preemption and expanded coverage.

Our dedicated private broadband networks at 900 megahertz will be tailored to meet the unique preferences and business requirements of critical infrastructures and large enterprises. Thus providing the dependability, security, resiliency, capacity, and coverage that is crucial for protecting such businesses.

Today, as Morgan will discuss, the FCC has an even riper and more positive record for consideration. While we cannot speculate on how long it will take the commission to review the record, we are encouraged by the alignment of the parties to the Commission's goals which we continue to see being echoed including promoting innovation, bringing new spectrum to market, fostering private investment in infrastructure, encouraging further rural broadband deployment, and increasing the FCC speed and turning around matters on its docket.

Additionally, as we previously announced, in November 2016, we filed a universal S-3 shelf registration with the FCC for \$100 million. Earlier today in our filed Form 10-Q, we announced that we supplemented that S-3 with an at-the-market or ATM equity program for up to \$40 million of that \$100 million, thereby, allowing pdv additional flexibility to access the equity markets opportunistically should we need to for future needs. An ATM is also an extremely efficient and cost effective vehicle to raise equity in comparison to other methods and gives us the ability to issue equity over a period of time at our choosing.

Now, I'd like to turn it over to Morgan.

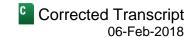
Morgan Edward O'Brien

Vice Chairman, pdvWireless, Inc.

Thanks, John, and good afternoon. I'd like to use my time today to share with investors our views of where we stand with the regulatory process regarding our unique spectrum. Three points are drawing our attention here at the beginning of February 2018.



Q3 2018 Earnings Call



First, the FCC Chairman, Ajit Pai, commanded nationwide headlines last week responding bluntly and negatively to a trial balloon launched from somewhere within the Federal Government. The trial balloon since deflated was a proposal for the Federal Government to finance, build, and operate a nationwide 5G or next-generation wireless network ostensibly federalized to ensure to the highest level of security against foreign intrusion and malicious interference.

Directly relevant to his mindset was the following quote. "I oppose any proposal for the Federal Government to build and operate a nationwide 5G network. The main lesson to draw from the wireless sector's development over the past three decades, including American leadership in 4G, is that the market, not government, is best positioned to drive innovation and investment."

The importance of the Chairman's comments is the insight that they give us into his mind and thus a way of projecting, we believe, how an FCC led by him could be expected to handle requests such as ours. The facts may be different, but here is in a number of other recent cases in which he has spoken out. The primacy of the marketplace over the heavy-handed regulation has been front and center in his thinking.

The second point we'd like to address is the very satisfactory record that has been built at the FCC since our last report to shareholders and since the last round of replied comments was filed. As John mentioned, there are very positive sentiments expressed in all seven of these most recent filings. All of these comments serve the exact purpose of the rulemaking process that the FCC launched by publishing an NOI.

They each are submitted by a unique party in interest to the 900 megahertz band, and each puts facts on the record which the FCC is likely to consider as it weighs its options for modernizing the band or choosing to leave in place the existing regulatory regime.

Supporting comments came from utilities that play such a large role in the 900 megahertz band and in pdv's business plans. But other companies that power the American economy have endorsed the concept as well.

When enterprises such as UPS, Martin Marietta, General Dynamics agree that a private carrier broadband network would serve critical needs, and when an organization such as the American Petroleum Institute describes the network as "a potentially acceptable middle ground between the consumer-focused commercial services and historic site-based licensed service." We would hope the FCC also will favor a repurposing of the band to accommodate new broadband technology.

All seven of these comments appropriately caution the FCC to consider and to protect incumbents, even while supporting the concept of re-banding. We urge our shareholders to go online, reference rulemaking number 17-200 and read these comments for themselves.

There is no better way than this of appreciating the relative complexity of pdv's undertaking. These parties reflect the momentum that we believe has built, particularly over the last few months, toward an outcome that should meet our goals for enhancing the wireless services we seek to bring to market, together with the FCC's expressed objectives to encourage market-based initiatives furthering innovation and investment in the modern wireless communications arena.

We particularly want to highlight a statement made by Mr. Steve Clemons, the Chief Information Officer of the Sacramento Municipal Utility District called SMUD. He writes, "The North American Electric Reliability Corporation, NERC, critical infrastructure protection standards require increasingly secure control systems that need a proprietary broadband network built to SMUD's specifications and requirements."

To our knowledge, this is the first time on the record of this proceeding that an incumbent has made an explicit reference to NERC's protection standards and the nexus between these obligations and a proprietary broadband network. NERC is the arm of the Federal Government where standards are set to enforce grid reliability. Much detail remains to be supplied in order to bridge the gap between a proprietary broadband network and the range of possible outcomes of this procedure as set forth by pdv and other commenters on the record.

One thing is for sure. The passage of time brings more clarity to the objective that we first identified in 2014 regarding the need for private broadband networks. The economy relies on wireless, and on broadband wireless in particular, to connect, to control, to communicate, with all the elements of critical infrastructure and a modernized grid.

Thirdly, on a personal note, I'd like to share some thoughts. To start, this current effort to modernize land mobile spectrum is not my first and it follows more than 30 years of engaging with Federal policies, generally administered by the FCC, to anticipate the future direction of wireless technology, and to align or to realign spectrum allocations to facilitate and embrace the future.

I first met pdv's Chairman, Brian McAuley in 1987 when we created Nextel and recruited an entrepreneurial team to construct a business case, and then to raise sufficient risk capital to fund the very expensive, very controversial process of crafting FCC rules for inserting new uses of spectrum into an environment occupied by established players.

Because of the risk, not the least element being the protracted regulatory process, these efforts by us and by numerous like-minded entrepreneurs require a decent percentage of wins that compensate this specialized capital, for its patience and for taking these risks.

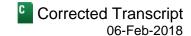
The end result both for Nextel and many other innovators has been to bring more choices into the marketplace, and that's indirectly to help make wireless the amazing bargain that it's become. The FFC, both under Democrats and Republicans, has been very consistent in supporting this process.

If 2018 starts in earnest, I see a landscape that is both very familiar and strangely different. That which is familiar is the push and pull of the FCC rulemaking process. As the agents of change, in this case, EWA and pdv as the proponents, are met with all manner of reactions from vested interests. Most particularly, the non-exclusively incumbents who go on alert to ward off any change in the environment affecting either daily operations, cost and infrastructure, or both.

This push and pull is normal, necessary, and gives the FCC time – often more time than those favoring change may prefer, to fully and deliberately weigh the arguments, pro and con, and to develop a point of view about the public interest which in most instances aligns exactly neither with the proponents nor the opponents, but lands somewhere in between.

As pdv looks at the record of the NOI which followed the filing in 2014 of our original request to rulemaking, we see this familiar process unfolding. And as John and I were happy to report, the record recently is filling with constructive comments, including from incumbents, that we believe supports an outcome tilted towards innovation, new technology and the promotion of competition. Of course, there's no guarantee of this outcome nor am I suggesting that I can see into the minds of those FCC officials who alone will make a final decision, only time will tell.

Q3 2018 Earnings Call



All of these comments about the familiar path that our proceeding has taken are by way of background to discussing those elements that are very unfamiliar. Let me begin with the observation that this rulemaking has required all of us at pdv, and most particularly me, to climb a very steep learning curve about one of the most fascinating and intimidating industries in the U.S., encompassing the full range of participants from the goliath electric utilities to the local often rural electric co-ops and their collective myriad infrastructure elements which, in the aggregate, are referred to as the smart grid.

Before going further, let me voice a definite disclaimer. We, at pdv, continue to climb up the learning curve, are nowhere near the top, and have huge amounts to learn about the future needs and challenges facing our neighbors sharing 900 megahertz, which include not only the electric and other utilities, but also other critical infrastructure industry participants, including extractive and transportation industry members and manufacturing enterprises.

Let me describe a little of what we've learned regarding our electric utility neighbors in particular. Electric utilities lie at the heart of the American economy, keep us safe and warm, facilitate most of the wonders that technology delivers and regularly deal with complexities and challenges that most industries do not.

While keeping pace with the growing demand furthermore, the industry has been forced by cost pressures to innovate and by regulators, both Federal and State, to embrace change, most particularly new theories of, and approaches to ratemaking and how best to harness and integrate the new alternative sources of energy, such as wind and solar.

And all of this is accompanied by the certain knowledge in the C-suites that terrorists routinely view this country's utility industry critical infrastructure as a very attractive target whose compromise could wreak havoc on the American economy.

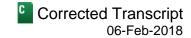
And have I mentioned floods and hurricanes. This is an abbreviated list, but the gist is that we have learned by listening and will continue to learn by active engagement that our spectrum neighbors [ph] live with (00:21:29) layers of complexity to complicate transitioning into what we at pdv, or any other wireless outsider may think are the slam dunk advantages in broadband LTE over the traditional narrowband uses of spectrum.

Nevertheless, and it's a big nevertheless, I'm more convinced than ever that the future envisioned and expounded by pdv for the last three years that the private carrier broadband network is, by far, best use of 900 megahertz spectrum and that with extreme care in the design, implementation, and operation of such a network, is precisely what this country needs. We're adding a powerful new tool in the toolbox of the critical infrastructure industry.

With care and with the active cooperation of substantial 900 megahertz incumbents, we've come to some tentative conclusions. We've done the work necessary to assure ourselves that by relying on today's commercially available technology, and by using tried and true practices for re-banding, a rational division of the 900 megahertz band can be effected. Nationally, there are a handful of very large incumbents, whose use of spectrum suggest a creative, flexible process of engagement, resolution of competing goals and objectives.

I hope I've made it clear that we have listened to the incumbents, read what they've written for the record, and in most cases among the willing, have agreed to amicable ways of sharing this unique band. As the last year has shown, from the aftermath of hurricanes and floods, not only the nation's utilities, but all other enterprises occupying the critical infrastructure industry space face complex challenges and threats.

Q3 2018 Earnings Call



More than ever, I remain convinced that the FCC has a rare opportunity in this proceeding to provide a platform for those challenges and threats to be considered. Not only so that incumbents do not suffer a disruption, but also so that protected spectrum located in the sweet spot of propagation and building penetration can be put to use as an essential part of addressing the needs of grid modernization and the other mission-critical requirements-driven needs of the enterprises that provide or produce essential services and products for all of us.

The more we listen, the more we learn. The more we learn, the more convinced we are that the public interest will be served by a thorough, but prompt consideration by the FCC. We have the resources, the experience, and the will to make the best possible use of our spectrum to serve the public interest. What we lack is permission to proceed.

Thank you very much. Now, I'll turn it over to, Tim.

Timothy Gray

Chief Financial Officer, pdvWireless, Inc.

Thanks, Morgan. Good afternoon, everyone. I will review the key highlights of the company's financial results for the third quarter of fiscal year 2018. My review is not intended to replace the full financial disclosures enclosed in the company's Form 10-Q filed today or our most recent Annual Report on Form 10-K filed with the SEC, and we encourage listeners to review those filings for additional information.

Revenue for the company's third quarter ended December 31, 2017 was \$1.6 million compared to \$1.3 million for the quarter ended December 31, 2016. Also for the quarter, the company reported a net loss of \$5.7 million or negative \$0.40 per share versus a net loss of \$7.3 million or negative \$0.51 per share for the same quarter in the previous year.

The third quarter included a \$2.8 million benefit or \$0.19 per share to decrease our deferred tax liability due to the lower corporate rate going forward from the new tax law passed at the end of 2017. As previously disclosed, in accordance with GAAP, we continue to increase the valuation allowance each quarter to cover 100% of our deferred tax assets, which resulted in an expense of \$650,000. Both of these transactions resulted in a net \$2.1 million tax benefit for the quarter.

Adjusted EBITDA for the third quarter was negative \$5.9 million, compared with negative \$5.5 million of the same period in the prior year. The decrease in adjusted EBITDA over our previous year is due to an increasing consulting cost to support our regulatory initiatives and higher sales and marketing costs, partially offset by higher Dispatch-related revenues.

As of December 31, 2017, the company has \$104.2 million in available cash, a decrease of \$6.3 million from September 30, 2017. There were \$250,000 of purchases of spectrum in the quarter and we will continue to opportunistically purchase additional spectrum when it makes strategic and financial sense.

In support of our efforts going forward, it's important to note that we do anticipate additional expenses for our regulatory efforts and in continuing to expand our business development pipeline. I'm also pleased, as John mentioned earlier, that the ATM equity program we set up will provide us with additional financial flexibility, should we need it, for future strategic initiatives and other general corporate purposes.

That concludes our prepared remarks. Thank you for joining us. The operator will now accept questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, the floor is now open for questions. [Operator Instructions] Please hold a moment while we poll for questions. Your first question is coming from Mike Crawford. Sir, your line is live.

Mike Crawford

Analyst, B. Riley FBR, Inc.

Thank you. Mike Crawford from B. Riley FBR. Can you comment on any of the collaboration, the post-collaboration process with some of these entities that you've worked some swaps and other deals with? Have you been able to, for instance, start re-banding radios and found that to be as easy as you envisioned?

John C. Pescatore

President, Chief Executive Officer & Director, pdvWireless, Inc.

Sure. Yeah, of course, we can comment generally about that. I did mention the example of a letter that was filed with the FCC on behalf of LIPA. That one in particular is in the process of – it has not yet gone forward in terms of the swap itself.

It's got to be filed, and they're in the process of putting a new system in, and, of course, those are great times to be able to reconfigure a network seamlessly. It's planned in a major project of an implementation of a system like that.

And so that one in particular is not done, but we have done others where the systems have been deployed now in the 2x2. And so far, everything is consistent with what we've been saying. We find the ones that we're doing now that they're – we work through the benefits and requirements they have. And so the example of a swap is one. There was an example also where they wanted to move out of the band and we were able to facilitate doing that.

So, I think our experience is telling us what we had surmised is true. These things are not just possible, it is happening and they're happening in major markets like Southern California or New York, New Jersey, very spectrum-constrained markets that were able to work through the logistics of relocating spectrum into the 2x2 of a pretty massive and complex LMR network or system.

Mike Crawford

Analyst, B. Riley FBR, Inc.

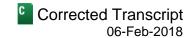
Right. Thank you. That's good to hear as some of the opponents express some fears that maybe it wouldn't be quite so easy to make some of these changes, but that doesn't seem to be the case so far?

John C. Pescatore

President, Chief Executive Officer & Director, pdvWireless, Inc.

Yeah. And ultimately, Mike, in a big network, it is a logistic challenge and that, there's been a tremendous amount of past experience with re-bandings that had been done of even public safety which are even more complex. And I don't think – and Morgan can speak to this a little bit, there's not an example of one that hasn't been able to be effected. That's not to say that we don't respect and appreciate the complexity and some of the concerns that are raised. Of course we do. But when you sit down and work through it, and there is a plan that gets put in place customized to that entity that we believe is effective. Morgan do you...

Q3 2018 Earnings Call



Morgan Edward O'Brien

Vice Chairman, pdvWireless, Inc.

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Yeah, Mike. There's no comparison between this task and the task that was performed over the 800 megahertz. The 800 megahertz was far more complex, many, many more systems, thousands of systems. And so we're not surprised that as we go through the process, which is the same process, we're having the same results.

Having said that, there are relative handful of very large, very extensively – very geographically extensive systems with lots of sites, lots of frequencies, and those require a lot of planning and no sudden moves because they are running mission-critical voice communications over them and, in some cases, forms of data.

So, those are well known to us, and in some cases, we're in very constructive discussions, and in other cases, I frankly think we're waiting because the incumbents are waiting just to see what the FCC is going to signal before they engage. But many more are engaging than are not.

Mike Crawford

Analyst, B. Riley FBR, Inc.

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Thank you, Morgan. For outsiders [indiscernible] (00:33:16) the NOI proceedings, are we at a stage now where we probably shouldn't be expecting to see anything else land to the record as we did see these additional comments like from LIPA after the initial reply comment deadline? And if in conjunction with that, the next thing one might see if it were to happen would be a potential move to an NPRM and that could just happen one day or are there other milestones to look for?

Morgan Edward O'Brien

Vice Chairman, pdvWireless, Inc.



Okay. So let's start with, there is no formalized procedure from this point on. The FCC is now fully capable of taking almost any action they want and taking that action whenever they want. On the other hand, this is not a proceeding in which we are precluded from talking with the staffers, so without going into any details, I would say, we're not aware that they're waiting for anything else to show up on the record and we have reason to believe that therefore the process of moving towards an NPRM is the next thing we should expect.

John C. Pescatore

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President, Chief Executive Officer & Director, pdvWireless, Inc.

But to address the whether you'll see anything else on the record comment, it is a notice of inquiries so at any point in time additional information can come out on the record. And so you may – I wouldn't be surprised to see other commenters come in at this point in the proceeding.

Morgan Edward O'Brien

Vice Chairman, pdvWireless, Inc.

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By friend or foe.

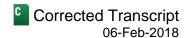
John C. Pescatore



President, Chief Executive Officer & Director, pdvWireless, Inc.

By friend or foe. And so we're just – you are right. This isn't something now. There is no defined process, but we feel like we've built collectively a record that gives the FCC a good basis on which to make their next calls.

Q3 2018 Earnings Call



And as Morgan said in his remarks earlier, we can't necessarily predict or read their minds as to what those actions and when they're going to take place. But that's why the commercial efforts to engage with the incumbents and the critical infrastructure industry in general, those efforts just provide the best, kind of, support because they are the kinds that are independent third parties that are weighing in in support of their needs. And it's great to think about a choice in the market for a private enterprise broadband solution that they can access.

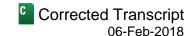
Mike Crawford Analyst, B. Riley FBR, Inc.	Q
Great. Thank you very much.	
Morgan Edward O'Brien Vice Chairman, pdvWireless, Inc.	A
Thanks, Mike.	
John C. Pescatore President, Chief Executive Officer & Director, pdvWireless, Inc.	A
Thank you, Mike.	
Operator: [Operator Instructions] There are no further questions in queue	
John C. Pescatore President, Chief Executive Officer & Director, pdvWireless, Inc.	
Well, thank you. We want to thank all of you who listened in today. We great	atly appreciate it. We remain available

Operator: Thank you, ladies and gentlemen. This does conclude today's conference call. You may disconnect your phone lines at this time, and have a wonderful day. Thank you for your participation.

if there are any questions. Feel free to call one of us or contact Natasha. We're happy to follow-up on any

particular items and look forward to speaking again soon. Take care, everyone.

pdvWireless, Inc. (PDVW) Q3 2018 Earnings Call



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