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PDVW - Q3 2019 pdvWireless Inc Earnings Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the pdvWireless Third Quarter Update Conference Call. (Operator Instructions)

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 - *pdvWireless, Inc. - Director of Corporate Communications*

Thank you, Kate. Good morning, everyone, and thank you for joining us. With me today are Brian McAuley, our Chairman; Morgan O'Brien, our CEO; Rob Schwartz, our President and COO; and Tim Gray, our CFO.

Before we begin, I'd like to highlight that during our call, we will present both GAAP and non-GAAP financial measures. A reconciliation of non-GAAP to GAAP measures is included in today's earnings release, which can be found on our Investor Relations page.

Please also note that our discussion may contain forward-looking statements, and our actual results may differ materially from those implied. Information regarding factors that could cause such differences can be found in our public filings.

With that, I'd like to turn the call over to Morgan O'Brien.

Morgan E. O'Brien - *pdvWireless, Inc. - CEO & Director*

Thank you, Natasha. Good morning, everyone.

We continue to anticipate FCC action on our rulemaking petition soon and made encouraging conversations with FCC staff. Our investors undoubtedly share our frustration that the final steps of issuing an NPRM are so slow.

The recent month-long closing of the Federal Government, including virtually all of the FCC, no doubt has caused a substantial backlog of items requiring FCC attention, including our own.

While we wait, we continue to make substantial progress complementary to our FCC effort. Our personal favorite was our press release on January 17, when we announced a further development in our important relationship with Southern Company subsidiary, Southern Linc.

Our investors will remember that Southern initially opposed our petition, but many months of constructive discussion with the engineers at Southern led to a breakthrough in 2018. After first reaching agreement in principle with the Association of American Railroads to swap certain 900



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megahertz channels in use by the freight railroad industry, it became possible to move the proposed broadband block spectrum by a relatively minimal 400 kilohertz and thus address Southern's interference concerns without impacting the opportunity to support new broadband technologies in the band.

Our agreement on the petition then gave rise to a series of business discussions between Southern and PDV, which in turn led to our agreement to work together to promote the benefits of private LTE broadband for the electric utility industry.

From my particular perspective of the FCC regulatory process, this agreement is a great step forward. The endorsement from Southern, the only utility with actual commercial experience deploying LTE, offers powerful support on the record for a favorable NPRM.

Southern is now providing broadband services to their operating companies and many other enterprises throughout their territories. It thus can represent a concrete rejoinder to the arguments initially made on the record by a few utilities that private broadband is neither feasible nor necessary.

Also importantly, Southern is taking action to promote to other industry players its view that an LTE network, first proposed by PDV more than 4 years ago, is vital to grid modernization. As Rob will describe in detail, Southern is not alone in expressing public support for our efforts. We announced the Utility Broadband Alliance, or UBBA, about which Rob will provide more details shortly. We continue to educate and advocate with the Federal Government for Smart Grid deployment.

In that context, PDV's involvement with the Department of Energy's National Renewable Energy Laboratory, or NREL, advanced significantly in recent weeks as PDV finalized an agreement with NREL, under which PDV will provide resources, spectrum and expertise to NREL to install, evaluate and document a private LTE network and initial proof-of-concept evaluation of communications latency in a representative utility use case. This approach is the first step toward a greater NREL collaboration with PDV.

But just yesterday, we were proud to announce the DOE has designated the PDV-NREL effort a high-impact status project. The project will evaluate utility advanced distribution management systems, or ADMS, for communications latency and priority. The expected outcome would convey a quantified understanding of how the communications portion of an ADMS impacts the overall grid-level performance of said systems, when the communications network is a private broadband network using LTE technology.

And importantly, utilities are encouraged to participate in the project to learn for themselves the benefits of LTE. We're pleased to have made so much progress and so quickly with NREL. We view the pace of progress as an indication that there's a strong perception in the Federal Government that a dedicated broadband network is a core element of grid modernization.

In addition to our efforts that have the immediate objective of favorable FCC rules for the spectrum, our team continues to study the role of the DOE in an effort to identify, evaluate and pursue opportunity to affect energy policy in ways that will strengthen or otherwise benefit our proposed broadband offerings. DOE is the sector-specific agency responsible of the Federal Government's role in assuring energy sector cybersecurity.

Numerous actions and publications from DOE are evidence of how important and how timely are the subjects of new technology and new initiatives to ensure grid modernization.

The National Academy of Engineering is widely quoted as having called the North American Power Grid the supreme engineering achievement of the 20th century, and there's absolutely no doubt that the academy was right. But we're now almost 20 years into the 21st century, and there are existential challenges to the grid, threatening its ability to continue serving a population that grows more dependent on electricity every day.

The Oak Ridge National Laboratory, one of the premier research labs run by the Federal Government through DOE, recently issued a report on the grid modernization under the heading Smarter, Stronger, More Sustainable Electricity. There Oak Ridge laid out its view of the challenges facing the grid: to vet aging components, a lack of robust real-time communications and an increasing demand for efficient integration of renewable energy sources.



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Now in laying out the tasks which underlie the grid modernization initiative, Oak Ridge gave a number of specifics including: enhancing real-time visualizations and data analysis to isolate grid failures and quickly restore power and controlling power flows with advanced technologies. Just 2 of many. We believe these and virtually all of the enumerated tasks can be accomplished more easily, more effectively by the availability of robust real-time communication, provided by 900 megahertz private broadband networks deployed using LTE technology.

Before I turn the microphone over to Rob, I'd like to summarize our progress since our November call. Without losing focus on the most critical factor of achieving FCC success, we've nurtured existing relationships with prominent utilities, other critical infrastructure players and we've initiated multiple new relationships. Given the increasing demand from this potential customer base, we are no less sure now than 4 years ago that we have an asset at 900 megahertz that can play a foundational role in making the modern grid more resilient and more secure.

Our shareholders have shown extraordinary patience as we've endured a regulatory process that cries out for modernization of its own. But these years have been well spent in the slow deliberative process of learning the needs and challenges of important elements of the U.S. critical infrastructure industry. I trust that our vision for these industries will come to pass. And we, as management, will continue to enhance the value of our most important asset, our spectrum.

With that, I'll turn the microphone over to Rob.

Robert H. Schwartz - *pdvWireless, Inc. - President & COO*

Thanks, Morgan, and good morning, everyone. As Morgan just covered our top priority, our continuing regulatory progress, it's worth noting that regulatory to us means both the progress and support of our broadband initiatives at the FCC and also includes what we call our industry regulatory initiatives, representing our considerable outreach efforts in the energy industry at both the federal and state levels. We believe this effort is driving greater awareness of the necessity for private broadband networks as a critical element in solving vital industry issues and will help drive regulator support and funding for industry broadband initiatives nationwide.

I'd like to focus my time on this call to provide updates on our other key priorities, development of our commercial broadband business. As part of this effort, we've made substantial progress in reorganizing our business over the course of the last 9 months. We've moved decisively, as announced a few months ago, in the divestiture of our dispatch and related solutions business, and we've concentrated our resources on growing our private broadband opportunity, including investing in our people, growing our team and refining our operating model for our future. This refined strategy sets the stage for our pursuit of long-term growth.

Additionally, we've refreshed our board with 4 new independent members in the past 6 months, including the most recent edition of Greg Haller. Greg spent almost 30 years at Verizon Wireless, where he served in diverse leadership positions spanning operations, sales, marketing and solutions as well as consumer product portfolio and pricing. We are certain that Greg's complementary perspectives and challenging insight will add a significant value to our board and our company. With these organizational improvements now in place, we have the right foundation on which to build our future growth. I look forward to sharing with you more organizational achievements as we continue to make progress.

Since our last earnings call, we've had a number of significant developments that demonstrate continued industry collaboration. You heard from Morgan the work we are doing with the Department of Energy's NREL Lab in demonstrating the capabilities of private LTE to serve the needs of this industry and recognizing the importance with the award of high-impact status.

Earlier this week, PDV announced the launch of the Utilities Broadband Alliance, or UBBA. The industry-led alliance representing the collaboration of utilities and ecosystem partners working together to define a road map for industry evaluation and adoption of private broadband networks.

The founding members of UBBA include organizations positioned at the forefront of grid modernization and are focused on evaluating and developing innovative use cases that leverage dedicated private broadband networks. Founding members include Ameren, Burns & McDonnell, Cisco, Encore Networks, Ericsson, Federated Wireless, GE, Motorola, Multi-Tech, National Grid, Sierra Wireless and Southern Company's Southern Linc. We made this announcement this week at DistribuTECH, the leading utility technology conference in U.S., and based on the strong industry response, we expect to see many more companies joining the alliance in the coming months.



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Utilities as a group have long had a history of collaboratively solving key issues, and here, including the common goal of solving the growing need for increased resiliency and cybersecurity.

To quote Southern Linc's President, Tami Barron, "Based on our experience, we are convinced that private wireless broadband networks are a strategic and tactical advantage for electrical utilities. As part of the overall U.S. electric industry, we are prepared to share the knowledge gained from the development of our own mission-critical LTE network with other utilities."

Having Southern and Ameren as founding members of this alliance, this will bring considerable expertise and experiences with private LTE for the benefit of all members. And PDV is launching of this alliance on behalf of the industry further demonstrates our leadership and support utilities, we expect this to be a valuable catalyst in driving the adoption of our private LTE solutions across the nation. Both the alliance and DOE's NREL Lab partnerships provide an easier on-ramp for industry participants to see firsthand from their peers' experiences how to best implement 900 megahertz private LTE networks.

Now let's take some time to talk about our commercial efforts. As I described on last quarter's call, we continue to see more utilities understand the benefits of private broadband networks and a growing interest from our target customers. We are advancing discussions and further developing relationships with many of the largest investor-owned utilities, or IOUs, in the country.

As we mentioned before, collectively, the top 20 IOUs service territories represents over 75% of the nation's historical spectrum value, and we are in various stages of discussions with the majority of them, including pilots and initial deployments.

IOUs are estimated to collectively spend over \$3 billion annually on their smart grids, with a significant portion of that investment on communications. These initial customer discussions and pilots are providing a considerable amount of learning that is helping us shape our product offering to increase value to our customers, with a goal of translating to shareholder value.

We are seeing common knowledge of use cases Innovative opportunities that leverage LTE in meeting customer demands. For example, private LTE brings increased throughput and lowers latency, which enables utilities to receive data more quickly, resulting in faster action as needed.

Additionally, improved detection of incidents allows for quicker identification and isolation of problems, with the goal of preventing widespread outages and disasters. This, in turn, translates to reliability and resilience.

With distributed energy resources bringing new energy into the grid, two-way communications are required as those new generation systems come online and add new demands to the legacy utility infrastructure. We are also seeing use cases that are directly and immediately valuable for utility customers, including things as fundamental as street lighting control.

Cybersecurity, a need that's been all over the news recently, is a -- is driving another set of critical requirements for utilities. The mounting urgent need for the private dedicated broadband systems is even more apparent with the recent confirmed attacks to our grid and widespread natural disasters taking place, all of which have the potential to wreak havoc on our nation's critical infrastructure networks.

Separate, secure, private broadband communication networks, which are specifically for and controlled by critical infrastructure enterprises, have been recommended by the President's National Infrastructure Advisory Council, or NIAC. Utilities can reduce the attacks and improve cybersecurity by implementing these closed, purpose-built networks, separated from the public Internet and by phasing out diverse hard-to-manage outdated network technologies in favor of a consolidated modern broadband system.

Another initiative worth mentioning is our work with the coming mid-band CBRS spectrum to complement PDV's low-band spectrum. We are currently trialing this spectrum with partners in the initial deployments. And as a member of the CBRS Alliance, we are working with industry participants to develop solutions for critical infrastructure providers. CBRS as an overlay on our 900 megahertz serves to provide additional capacity where needed. We believe low-band 900 megahertz offers the coverage and performance critical infrastructure providers require.



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The growth of CBRS also continues to raise the awareness of private LTE as an enterprise solution. And our low-band spectrum provides a natural solution to entities looking to provide wide area coverage beyond the campus solutions of CBRS.

With the final quarter of our fiscal 2019 upon us, we plan to continue to make progress on these and other valuable initiatives. And with our annual planning process underway, our intention is to continue to invest in the long-term growth of our business.

And with that, I'll turn it over to Tim.

Timothy A. Gray - *pdvWireless, Inc. - CFO*

Thanks, Rob. Good morning, everyone. As Morgan and Rob discussed, it's been a constructive quarter for us, and we're pleased with all we've accomplished since our last call.

Let me begin by spending a few moments discussing the deals we reached in early January to divest our TeamConnect and pdvConnect businesses. We believe these transactions will enable us to focus our capital on the initiatives that we expect to drive our future growth and further benefit our pursuit of establishing pdvWireless as a leader in solving the essential and valuable broadband network needs of critical infrastructure and other entities.

These transactions allowed for us to further reduce our future operating cost by eliminating approximately 20 positions or 30% of our workforce, which will be carried out over the course of the next several months.

Our fiscal 2019 fourth quarter will include a restructuring charge of approximately \$900,000 related to these actions. Please refer to our 8-K filed on January 7 of this year or our 10-Q filed earlier today for additional information on these transactions.

Our headcount will be approximately 50 after these reductions, down from over 100 last summer. However, we intend to continue to hire exceptional talent, both as employees and contractors, to enhance our broadband and commercial capabilities. So headcount-related costs will increase during our next fiscal year as we add these additional resources.

Let's now look at our cash burn since last quarter. Our cash position decreased by \$3.3 million, which included \$285,000 in restructuring-related spend. While a significant decrease in burn versus previous quarters, it's important to note that we had proceeds of \$1.8 million from stock option exercises during Q3. And I'm pleased to say that we are well on our way to achieving a stated goal for fiscal 2019, which was to have lower cash burn than fiscal 2018 before considering any restructuring-related cost or spectrum acquisitions.

Our average quarterly cash burn prior to our restructuring actions, which started mid-2018, was just over \$7 million. Going forward, we expect our normalized quarterly cash burn before restructuring and spectrum acquisitions to be approximately \$6 million. As of December 31, 2018, the company had \$82.3 million in available cash and is debt free.

Looking at our results for the third fiscal quarter ended December 31, 2018, the company reported net loss of \$8.4 million or negative \$0.57 per share versus a net loss of \$100,000 or negative \$0.01 per share for the same quarter in the previous year. Last year's third quarter included an income tax benefit of \$7.8 million due to the new tax law.

Adjusted EBITDA for the third quarter was negative \$6.6 million compared with negative \$5.9 million for the same period in the prior year. The third quarter of fiscal 2019 included \$600,000 of restructuring-related charges.

I'll finish by saying that we are looking forward to updating investors with additional details on our go-forward financial plan. As shared with you on our last call, once the FCC issues an NPRM, we'll be holding an Investor Day. Of course, we'll take some time to digest the NPRM, but we'll release details on the Investor Day shortly thereafter.

That concludes our prepared remarks. I'll now turn it back over to the operator for questions.



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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today is coming from George Sutton. Please announce your affiliation, then pose your question.

George Frederick Sutton - *Craig-Hallum Capital Group LLC, Research Division - Partner, Co-Director of Research & Senior Research Analyst*

Craig-Hallum. Morgan, I wondered if you could give us a little bit more detail on a couple of the points you made. You mentioned encouraging discussions with the FCC. Just curious if you could expand upon that. And you also suggested you are within a backlog that now exist because of the shutdown. I'm just curious, do you think your position within that backlog has changed at all? Or is that just recognition of the reality of the government shutdown?

Morgan E. O'Brien - *pdvWireless, Inc. - CEO & Director*

I'm starting, George, with the last part first. I think it just a reality of the shutdown. But moving to your first question, no, we're -- we have had active, pretty much daily discussions. And so we know that the item, which is how something like this gets decided, is in a mature stage. And therefore, we are realistically expecting something soon. So it's a -- it's promising. We're told that this is intended to be acted on quickly soon. So that's our impression. That's what we're told. That's what we believe. And regrettably, I have to say, took a long time coming. But that's okay. We all understand the regulatory process.

George Frederick Sutton - *Craig-Hallum Capital Group LLC, Research Division - Partner, Co-Director of Research & Senior Research Analyst*

One other thing relative to just the timing. I believe we're still under a freeze of the spectrum and that limits your ability, correct me if I'm wrong, to acquire additional spectrum and/or anyone else acquiring spectrum. So we -- just to confirm, we are still under a freeze, which suggest an accelerated time frame.

Morgan E. O'Brien - *pdvWireless, Inc. - CEO & Director*

Well, yes, sure. Yes, I think it does. But let me just clarify one thing. It doesn't -- the freeze doesn't prevent transactions such as if I buy from an incumbent licensee. Those types of transactions are not frozen. What's frozen is the ability to access the commissions' remaining storehouses spectrum. That's what's frozen. But of course, without getting too techie here, the only spectrum currently available, even if there were no freeze, a company like ours, a commercial enterprise like ours is not eligible for that spectrum. That's just the problem. That spectrum under current rules, and the rules that have been in place since the 1980s, the remaining spectrum is only available, let's just say, private company intending to use this spectrum for its own internal communications. So even if there were no freeze, we'd have nothing we could apply for. But anything that's currently licensed, we're free to go after and those discussions continue.

Operator

(Operator Instructions) Our next question today is coming from Mike Crawford. Please announce your affiliation and then pose your question.

Michael Roy Crawford - *B. Riley FBR, Inc., Research Division - Senior MD, Co-Head of The Discovery Group & Senior Analyst*

B. Riley FBR. So you mentioned Southern and Ameren as founding members of this Utility Broadband Alliance. And we know they have experimental licenses to work in the 900 megahertz spectrum. But how did National Grid come in there as a founding member?



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Robert H. Schwartz - *pdvWireless, Inc. - President & COO*

Mike, it's Rob. It's a good question. We did some preliminary work, obviously, in advance of the soft launch of our UBBA, the Utilities Broadband Alliance, which we did, as I mentioned last week, at this major technology utility conference down in New Orleans. So in the initial discussions, as we talked about, we've got relationships with the majority of the top 20 IOUs. They're one of those for sure. And so we've put out invitations to a broad base of utilities beyond the initial founding members. We had meetings and discussions with a much broader base of utilities and have really strong interest from lots beyond National Grid. So National Grid, like many of those other IOUs, I mean, we really saw at this conference, we've been going for a number of years to DistribuTECH. And what really I think is a coming-of-age of the awareness of the value of what broadband can do in helping solve a lot of the issues that are coming to the surface is really happening en masse. And so from our standpoint, they're a good example, but hopefully, plenty more to come of utilities that are really looking for a way to learn about broadband and because there aren't a lot of ways to do that besides direct vendor conversations, that's the whole purpose of creating this forum for the ability for utilities to own and operate. So we say by utilities and for utilities is really the intent of this. They're one of the many that are interested in learning about how this can be valuable and really designing a plan on how they can implement it in their way to solve their critical needs.

Michael Roy Crawford - *B. Riley FBR, Inc., Research Division - Senior MD, Co-Head of The Discovery Group & Senior Analyst*

Okay. And then you also talked about that you're currently trialing with partners citizen's band as an overlay -- capacity overlay on top of your coverage spectrum. And is -- I don't think that's part of the Ameren experimental license, or I could be wrong, but is -- has it been disclosed exactly what you're doing? Or where in that regard?

Robert H. Schwartz - *pdvWireless, Inc. - President & COO*

Sure. Yes. We've talked -- let me give you a little more clarity on it. So as I mentioned, CBRS being a higher-band or mid-band spectrum with 3.5 is a great spectrum as the CBRS Alliance and their community has really well defined for serving in buildings, in stadiums, on campuses. And has a really great, robust ecosystem of vendors and solution providers working on developing that. With 900 megahertz, our low-band spectrum being great at covering wide areas. The service territories of utilities typically, as you know, these big utilities have multistate footprints, where they're trying to cover areas, including where there's transmission lines and substations, but no people and typically not even other networks available. And so the complement of the 2 of those using 900 megahertz to cover wide areas cost-effectively and providing the physics of good in-building penetration. When you have to get to substations that are in cement bunkers, it's much better to have low band. But as you need more capacity as an overlay in places like urban cores or other areas where you may want additional capacity, CBRS is a natural complement to that. And specifically, on the pilots that are going on, Ameren filed an experimental license for -- separately for 900. And I think if you look on the record, they also filed an experimental license for CBRS as well. With the way that CBRS is developing with the SaaS systems, in other words, you can actually in the future, once they get through the full licensing process, you'll be able to go directly to the SaaS and get access to that spectrum in either the licensed form or the unlicensed form. And that's the way we see it as an on-ramp for utilities to be able to use CBRS. But we think it's a great complement and an expansion of the foundation of our low-band broadband spectrum.

Michael Roy Crawford - *B. Riley FBR, Inc., Research Division - Senior MD, Co-Head of The Discovery Group & Senior Analyst*

Okay. Thanks for that clarification. And just final question is, I think on your last earnings call in November, you talked about a third large investor on utility is likely starting a trial soon. Has that started yet?

Robert H. Schwartz - *pdvWireless, Inc. - President & COO*

Yes. There is a third. And unfortunately, we're still under NDA, and I can't talk specifically about the name of the entity. But yes, there is still at least another ongoing effort, which they've already selected vendors are pushing forward in their own process of design and deployment of a 900 megahertz deployment. And I hope -- we hope to be able to share more on that soon as soon as that becomes public.



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Operator

(Operator Instructions) We have no further questions in the queue at this time.

Morgan E. O'Brien - *pdvWireless, Inc. - CEO & Director*

Can I -- this is Morgan. I just want to make one other comment. I've gotten questions from investors before, and I think it might be worth repeating the question and the answer, particularly in light of our recent announcements. And the question is, why isn't the UTC, which is Utility Telecommunications Counsel, out and front publicly supporting this since it seems to have gaining support in utility industry?

And what I say, and I think it's worth repeating here, is that if you have an historical perspective, you realize that at one point, UTC was always on the leading edge of productive change for the industry. And to me, it's incredible that the industry -- that association, of which we are a member, seems to have become so entrenched in some kind of backward-looking process that they're unable to see the future, which so many of their members are seeing. So it's sad, as I say, because you'd like to think, you would believe that an association that holds itself out, just looking for the interest of their members would be looking forward not backwards. But here, we have a case of total MIA, missing in action. It's sad. But I don't think it's fair to infer anything from it once you look at the kind of progress that's been made. And I think with that, since we don't have any further questions, we'll -- Natasha tells me it's time for us to wrap up, and thank you all for attending.

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.

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