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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Melissa, and I will be your conference operator today. At this time, I would like to welcome everyone to the Ford Monthly Sales Call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question-and-answer session. [Operator Instructions]

Thank you. Mr. Erich Merkle, you may begin your conference.

Erich Merkle

Head of U.S. Sales Analysis, Ford Motor Co.

Thank you, Melissa. Hello, everyone, and good morning. Welcome to Ford's May 2018 U.S. Sales Call. Today, I'm joined by Mark LaNeve, Ford Vice President, U.S. Marketing & Sales and Service, and Emily Kolinski Morris, Ford's Chief Economist.

To get things started here this morning, we're going to turn things over to Mark first. And Mark is going to give us an update here on what we saw in the industry for the month, and also some of the Ford highlights. Mark, you want to kick them off?

Mark R. LaNeve

Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

Yeah. Great. Thank you, Erich, and good morning, everyone. It was really – it was quite a month in numerous ways. I'd like to begin with just a comment or two on the explosion and fire that we experienced at Meridian, which is a critical supplier for us in Michigan. First of all, and thank God, there were no serious injuries or fatalities with this incident, which is miraculous and obviously the most important thing.

I can't say enough about the unbelievable work of the Ford team in conjunction with our partners for the really – if you really see what happened and I'll try to go in detail, but it was a herculean effort to get our critical F-Series production back online, actually, way ahead of what we first anticipated. So, at this time, I'm pleased to confirm that all F-Series production is back up and running. And as you'll hear in a minute, F-Series had another sensational sales month. So we'll obviously need all that production.

So, looking at the early morning data for May, we believe the overall industry was up about 2%. We estimate the industry SAAR, including medium and heavy trucks, was in the high-16 million, maybe 17 million unit range. The month was really – from the numbers and just the way it played out, it felt strong from beginning to end for both ourselves and the industry with a really good final weekend as you would expect with the Memorial Day sales events across the industry, which has become a really solid sales weekend in the industry over the last several years.

Focusing specifically on May and year-to-date, as I mentioned, we believe May sales were up 2%. Year-to-date, U.S. sales are essentially unchanged from last year. This comes against a backdrop of stronger average transaction pricing, continued strong mix driven by the generational shift we continue to see from cars into SUVs and really strong truck performance, which by and large is being driven by us with F-Series. All this characterizes an industry that seems quite healthy and has performed well for the first five months of the year.

Year-to-date, the SAAR is running about 17.4 million vehicles. This is very much in line with our guidance for the year; actually, slightly above it as we called for the industry to be in the low-17 million unit range for 2018. Ford compared favorably to the retail industry for last month with a gain of little over 3%, actually 3.5%, for May year-over-year. We did this while expanding our overall transaction pricing by \$1,400 a vehicle, which is really solid.

Overall sales were 242,824 vehicles. This was up in total 1% over a year ago, which we believe will basically track with the industry performance that we're calling up to. As I mentioned, we had a strong retail month, up 3.5%. As we anticipated and explained on last month's call, fleet sales were down slightly year-over-year in the month due entirely to order timing.

Our overall transaction pricing performance continued a strong trend. ATPs were \$35,800 for May, an increase of over \$1,400 from a year ago. Relative to that transaction pricing, incentive spend continued to be very disciplined. Incentive spend was actually down in May \$40 relative to a year ago and, compared to April, it was down \$160 sequentially.

This environment is actually quite different. I believe I've mentioned this the last couple of calls. All of 2016 and 2017, [indiscernible] (4:26) industry was up \$350 a month, month-in and month-out on incentive spending. And this year has been relatively flat, which indicates really good underlying demand which remains healthy and consistent.

Taking a closer look at some of the performance of our key vehicles within our winning portfolios, let's start with F-Series. We sold 84,639 F-Series trucks in May, another unbelievable performance and actually an 11% gain over last year. And it represents the third time F-Series has topped the 80,000-unit number in the month of May. F-Series sales are up 5% year-to-date and we're on our way to delivering our ninth consecutive year of year-over-year sales gain. So it would be nine straight years that we're able to push F-Series sales higher.

We've broken through that 80,000-truck mark four times over the last nine months, and that's really amazing. We like to think of 70,000 as a great month, but we've topped 80,000 four times, really, almost every other month for

the last nine months, and no other competitor really comes close to 80,000 on a monthly basis in the full-size pickup market.

We achieved this volume while maintaining a rock-steady discipline on incentives. Our spend in May on F-Series was under \$4,000 per unit and remained at about the 7.5% range of selling price, which, by the way, is about 20% less than the segment average. Average transaction prices for F-Series totaled \$46,500 last month, again, a \$1,400 increase over last year and the largest increase of any full-size truck maker.

Moving on to utilities; our utility performance was strong, up 6% of retail, led by the all-new Expedition. This vehicle is critically important as we expand our footprint in the profitable large SUV segment, which, by the way, is about \$20 billion segment in the industry. Expedition retail sales were up 42% with sales up in every part of the country.

I'm actually making this call from a dealer meeting in Orlando, Florida. I'm with about 150 of our top Ford and Lincoln dealers from across the country, and I could tell you, from the meetings we've had and the side conversation, they're thrilled with this product and, obviously, asking us to figure out a way to build them some more.

With a good mix of high series Expedition models, we realized strong average transaction pricing with gains up \$12,300 year-over-year, meaning ATPs for May totaled \$61,400 per Expedition. On the other end of the spectrum, our other new entry the EcoSport in the mini-utility category continued to gain ground as we fill the pipeline. And for the second straight month, we had sales over 5,000 units, ending May with a strong 5,481 sales.

Moving onto Mustang and our performance vehicles; while the sedan business continues to struggle industry wide, it's a different story with our performance lineup, and we did see a great gain for Mustang last month as we moved into spring. Sports cars are most sought-after during these months, so it's an important period for the segment. Mustang sales totaled 8,739 vehicles last month, an 11% gain year-over-year. As many of you know, Mustang has been the best-selling sports car in the U.S. over the last three years, but in the world as well.

Moving on to our commercial portfolio, I'd like to make some comments on Transit. Ford's been the leader in the commercial van market for 39 years, and May was another strong month. Transit is America's best-selling van, outselling not just commercial vans, but all minivans as well. Transit sales totaled 15,513 units in May, a 12% gain over a year ago.

Finally, taking a look at Lincoln; with 9,755 vehicles sold, Lincoln results were down 5% in May. Much of this, however, is a result of lower fleet sales and a continued softness in the overall premium vehicle segment. Our retail share is actually going up and our share of the premium segment was about 6% last month, up from 5% last year, so we continue to see solid gains in market performance for our Lincoln brand.

Navigator's retail sales continue to be just explosive. Last month was no exception with Navigator producing 140% gain at retail. Let me repeat that number: 140% gain for our Navigator. Demand continues to outstrip supply and we can certainly sell some more right now if we had them and, obviously, our great manufacturing team is working on that. Average transaction pricing surged \$25,700 as customer demand more of our top trim series Navigators. We'll continue to improve our inventory position with each passing month and we'll be building on our Navigator position throughout the year.

So, with that, I'd like to turn it back over to Emily for an update on the economic front. Emily?

Emily Kolinski Morris

Chief Economist, Ford Motor Co.

Great. Thank you, Mark, and good morning, everyone. The U.S. economy remains on a favorable trajectory with the updated reading on first quarter GDP now in the rear-view mirror at 2.2%. The more recent incoming data are consistent with the sequential pickup in growth during the second quarter, including more material support from recent tax policy changes for both consumers and businesses.

In terms of the details on some of our key indicators, consistent with the second quarter pickup, April consumer spending started things off on a stronger footing. Adjusted for inflation, personal consumption expenditures rose 0.4% in April from the prior month, which is about 0.7% above the first quarter average. That spending gain came on the back of 0.2-percentage point increase in real disposable personal income, meaning the savings rate came down slightly from its first quarter average of over 3%.

The strong labor market and consumer confidence readings are consistent with steady growth in personal consumption expenditures going forward. The May employment report was released this morning and continues to show a positive backdrop for consumers from the labor market. The unemployment rate dropped to its lowest level since early 2008 at 3.8%. Job creation remains quite strong for this stage in the cycle with growth of 223,000 in payroll employment. At the same time, growth in average hourly earnings picked up a bit to 2.7%.

And the University of Michigan Consumer Sentiment Index dipped just under 1 point from the prior month. We were at 98.0 in May, but the survey notes that sentiment has been in a fairly narrow range of about 8 points since late 2016. And this reading remains just about the middle of that range. Job and income gains remain a key driver of positive sentiment with some headwinds from rising interest rates and inflection offsetting that.

Part of the rising inflation trend has been increases in oil and gas prices. The recent upward momentum on crude oil prices has moderated somewhat in recent weeks, but retail gasoline prices have shown the typical seasonality around the start of the summer driving season. According to AAA, the average price of regular retail gasoline was just shy of \$3 a gallon last week, up from \$2.81 last month and \$2.37 a year ago.

On the investment side of the GDP account, both housing, construction and business investments had decelerated in the first quarter with residential construction posting a sequential decline in the revised first quarter data. But, here again, April reading suggests a possible uptick with April orders for non-defense capital goods, excluding aircraft, which is a gauge business investment spending, rising 1% in April and reversing a similar drop in March.

And then, this morning, we received the manufacturing PMI for May, which was up 1.4 points to 58.7%, and that also suggests scope for additional investment going forward as businesses are reporting solid growth in new orders and tighter inventory. The housing data for April continued the recent sawtooth pattern, but around a modestly rising longer-term trajectory. For example, April housing starts were [ph] down 7% (12:41) from the prior month, but still up 10% versus a year ago. Similarly, new home sales were down 1.5% month-over-month, but up 11.6% from the prior year.

Now, on the existing home front, sales fell both on a monthly and a year-over-year basis, with weakness there attributed to lack of supply with only about four months of inventory currently on the market. In general, it appears the restraints on housing activity, both in terms of sales and building, are coming at least as much from the supply side as from demand.

So, overall, the recent data remain aligned with positive and likely accelerating second quarter growth for the U.S. economy, supporting total vehicle sales in the low-17 million unit range as in our guidance.

So, with that, I'll turn it back over to Erich for some additional information on segmentation.

Erich Merkle

Head of U.S. Sales Analysis, Ford Motor Co.

Thank you, Emily. So, taking a look at some of the things that transpired here in May, is that we just continued to see this strong shift from cars into SUVs. This has been going on really for the past – since about 2000, but it's really picked up over the last three years or so.

May was no exception to that. In fact, if we look at retail SUV sales, we estimate they were up about 13% for the month of May over a year ago, while retail passenger car sales were likely down about 10% to 11%. Through May, passenger car sales – it's really important to note, because through May passenger car sales are off to their lowest start since 2009. So, that's just how profound this shift has been to a point where we see passenger car sales now off to their lowest start since 2009. And as you all remember, 2009 was actually a recessionary year [ph] when (14:34) overall industry sales were under 11 million vehicles.

With the secular shift, it really favors our leadership position in trucks and SUVs. Year-to-date, sales of our Ford brand trucks and SUVs totaled almost 800,000 at 794,419 vehicles. Small SUVs, when you look at the small SUV segment, that represented about 24% of retail industry sales last month with sales estimated to be up about 14% over a year ago. And then taking a look at the large SUVs, where the Expedition plays, retail sales were up almost 25%, and that was really driven in large part by our performance with Expedition.

If we take a look real briefly here at mid-size cars, mid-size cars continued to experience a really significant drop last month, representing about 9% of the retail industry. The segment, we estimate, was down probably another 17% here in May over a year ago.

If we get into full-size pickup trucks, again, they posted very strong gains with retail sales up about 11% to just over – representing just over 13% of the industry for the month. And this translates – this is about a full point higher than a year ago.

So, we really have two different industries playing out right now. You've got SUVs and pickups, which continued to grow really to record levels, while passenger cars have dropped off to levels that we haven't seen in almost 10 years. So that's really a look at some of the segmentation, a kind of a longer-term view of it, and then also, the addition of May – for the month of May.

So if we could, at this point, we're going to start taking some calls, Melissa. We're going to turn things over to the analyst community first, please.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question is from John Murphy with Bank of America.

Aileen Smith

Analyst, Bank of America Merrill Lynch

Q

Good morning, guys. This is Aileen Smith on for John. First question: can you talk about the performance of the Fusion in the month? That's historically been one of your better selling vehicles. So was the decline driven by some sort of fleet headwind or potentially maybe driven by what is your overarching plan to move away from passenger cars and would you expect a similar performance for Fusion on a go-forward basis?

Mark R. LaNeve

Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

A

Yeah. Thank you for the question. We did have a significant decline in our fleet business for the month as pure order timing, although, in the overall fleet markets, they're much like – the rental markets certainly are much – and commercial are much like the retail markets where they're preferring to move into SUVs as well for the most part.

Our overall retail performance was very consistent with past months. It was down significantly, which it's been for several years, following the segment trend that Erich talked about. So we didn't see anything unusual with our announcement about our plans for the sedan business and working with our dealers on really a great plan to take care of our customers during the remaining time, which will be well over two years where we'll be selling this product.

Aileen Smith

Analyst, Bank of America Merrill Lynch

Q

Great. That's very helpful. And second question: can you talk about some of the leasing trends you've experienced over the past six months with these vehicle pricing holding in a bit better than expected? Are you seeing a push-back into the lease channel by some automakers, given the attractive monthly payment dynamics, which could potentially be explaining the more balanced incentive activity or are you still seeing a fair level of discipline on the leasing front as well?

Mark R. LaNeve

Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

A

We're still seeing a pretty fair level of discipline. Now, we remain in the low 20% range where we've been for the last couple of years in terms of overall lease penetration and the industry runs more 28%, 29s, we tend to run 6, 7 points below the industry. You will see spot dependent on the market. From talking with the dealers in New York, somebody there will be aggressive in mid-cars, it could be Nissan one month, it could be Toyota the next month, but overall, we're seeing pretty good discipline across the industry in terms of the overall lease market.

Aileen Smith

Analyst, Bank of America Merrill Lynch

Q

Okay. And last question, thanks for the commentary on some of the economic factors. Just focusing in on the implications of interest rates; we've been in a rising interest rate environment for some time now, yet the increase in auto loan rates hasn't exactly matched the move in treasuries. Is this a function of automakers and [ph] capital

fincos (19:30) and banks still subsidizing the consumer? And at what point do you expect you will be able to pass that cost onto the consumer and what implications might it have?

Mark R. LaNeve

Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

Well, we have seen – go ahead Emily. You go first.

A

Emily Kolinski Morris

Chief Economist, Ford Motor Co.

Okay. Well, the interest rate increases on accumulative basis are starting to add up. And of course, we can't comment on what others might be doing, but the auto financing environment is similarly competitive to the retail sales environment. So that certainly is a factor in terms of how much pass-through you see. But it's important to keep in mind that if you think about a 60-month, \$30,000 loan, 25 basis points is about \$3 on the monthly payment. So, I think given how gradual the pace of increases have been, yes, the cumulative impact do start to have some effect, but I don't think it's something that's going to be material headwind, just a modest one.

A

Aileen Smith

Analyst, Bank of America Merrill Lynch

That's very helpful. That's it from my end. Thank you.

Q

Mark R. LaNeve

Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

Thank you.

A

Erich Merkle

Head of U.S. Sales Analysis, Ford Motor Co.

Thanks.

A

Operator: [Operator Instructions] That concludes the analyst portion of the call. We'll now be moving into the media portion. [Operator Instructions] We do have a question from Keith Naughton with Bloomberg.

Keith Naughton

Reporter, Bloomberg News

Hi. Good morning.

Q

Mark R. LaNeve

Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

Hey, Keith. How are you?

A

Keith Naughton

Reporter, Bloomberg News

Just fine. Thanks. A couple of things real quickly. One is just the question of gas prices, Mark. They have topped or near \$3 a gallon nationally, but we're not seeing any effect on SUV sales. We're just wondering what you think the pain point is? Does it need to get to \$4? Is that a tipping point or have consumers taken a new view of rising gas prices?

Q

Mark R. LaNeve

Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

A

I'll defer to Emily in a second on the macro part of that question. I can just tell you that, as we've explained numerous times a part of our decision on exiting the sedan business is, customers have been moving into SUVs and preferring that kind of functionality, and [indiscernible] (22:08) for years. I think what helped accelerate – as Erich pointed out, the move into SUVs out of cars is accelerating. And part of it is, is that we get great fuel economy in our crossovers and SUVs now compared to five years ago and certainly compared to 10 years ago. And I think that helped soften and there's more choice and more price points and size points. So, instead of moving – if fuel prices have become a concern for the customer, instead of moving into sedan, they move into a smaller SUV or a newer one with better fuel economy. So, we certainly haven't seen anything, Keith, as I said, the moves accelerating. And in terms of pain point, I'll see if Emily has got any comment.

Emily Kolinski Morris

Chief Economist, Ford Motor Co.

A

Yeah. It's a really popular narrative that \$3 or \$3.50 or \$4 are the psychological thresholds that had some impact. And there may be some truth to that in the very short term, but consumers do adjust to higher prices, particularly, if they come through relatively gradually. I would – in terms of data, I would point to the detail on the U of M Consumer Sentiment survey, where they do ask customers about reasons, why they say it's a good time or a bad time to buy a vehicle. And certainly, at the levels we've seen to-date, gas prices have not popped in the least as the reason that it's not a good time to buy.

Keith Naughton

Reporter, Bloomberg News

Q

Great. And then, secondly, Mark or Emily, with the Section 232 investigations into auto imports and the tariffs coming on steel and aluminum from the EU, Mexico and Canada is bound to raise costs of vehicles. I'm just wondering if you'll be passing those on to consumers or how you're going to be adjusting to these rising costs.

Emily Kolinski Morris

Chief Economist, Ford Motor Co.

A

Yeah. Well, as we said earlier on the financing point, we're in a very competitive market. So we'll evaluate and we'll make the decisions we need to on pricing to remain competitive. But I don't disagree with you that it would have the impact of increasing domestic steel prices as well as imported prices.

Keith Naughton

Reporter, Bloomberg News

Q

Great. Thank you.

Mark R. LaNeve

Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

A

Thanks, Keith.

Erich Merkle

Head of U.S. Sales Analysis, Ford Motor Co.

A

Thank you.

Operator: [Operator Instructions] Your next question is from Mike Martinez with Automotive News.

Michael Martinez

Reporter, Automotive News

Hey, guys.

Q

Mark R. LaNeve

Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

Hey, Mike.

A

Michael Martinez

Reporter, Automotive News

Quick question; I was wondering if you had an updated days' supply number for F-Series?

Q

Erich Merkle

Head of U.S. Sales Analysis, Ford Motor Co.

Yes, we do, Mike. It's 68 days.

A

Michael Martinez

Reporter, Automotive News

Okay. Appreciate that. And second question on Lincoln. I believe it's eight consecutive months now for monthly sales declines. I know you mentioned fleet and just overall softness in the market. Where do you see this going through the rest of the year? Do you expect an uptick once Nautilus and freshened MKC get out there?

Q

Mark R. LaNeve

Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

Yes.

A

Erich Merkle

Head of U.S. Sales Analysis, Ford Motor Co.

Yeah. So, we've – Mike, as you know, we've decided to proactively reduce fleet and manage our lease volumes for Lincoln. And this is really being done to protect and enhance the brand's residual values. And this isn't something we're going to continue to do, and it's in the long-term best interest of the brand as we continue to focus on our growing retail business. So...

A

Mark R. LaNeve

Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

Yeah, Mike, we did 10,000 – close to 10,000 units for Lincoln in the month and I can tell you that, if you compare the quality of that sale, both the mix of vehicles, percentage of leasing, the percentage of fleet, it's a very healthy 9,755 units compared to two, three, five, certainly, five years ago. So we've got a...

A

Erich Merkle

Head of U.S. Sales Analysis, Ford Motor Co.

Right.

A

Mark R. LaNeve

Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

A

...very focused laser-like plan on Lincoln to rebuild the brand. We're making a great progress. We've probably got the hottest vehicle in the market right now with Navigator and it will continue to improve as we bring on the new SUVs, which we showed the dealers down here in Orlando and they were thrilled with, as we all are. So we're very optimistic about the future for Lincoln.

Erich Merkle

Head of U.S. Sales Analysis, Ford Motor Co.

A

And it's important to point out too, as Mark pointed out earlier, Mike, our retail share of luxury vehicle space for Lincoln was actually 6% last month and that was up from 5% in April and 5% from a year ago. So we feel pretty confident on the retail side of things, but we are going to manage that business and manage our fleet volumes.

Michael Martinez

Reporter, Automotive News

Q

Appreciate it. Thanks.

Erich Merkle

Head of U.S. Sales Analysis, Ford Motor Co.

A

Thank you.

Mark R. LaNeve

Vice President, U.S. Marketing, Sales and Service, Ford Motor Co.

A

Thanks, Mike.

Operator: There are no further questions. I will turn the call back over to Mr. Erich Merkle for closing remarks.

Erich Merkle

Head of U.S. Sales Analysis, Ford Motor Co.

All right. Thank you, Melissa, and thank you, everyone, for joining us on the call today. And everyone have a good month. We'll look forward to speak with everyone next month. Thank you very much.

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