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RB.L - Q1 2016 Reckitt Benckiser Group PLC Interim Management Statement Call

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OVERVIEW:

Co. reported its 1Q16 interim management statement. 1Q16 like-for-like growth was plus 5%. FY16 like-for-like net revenue growth guidance is plus 4-5%.



CORPORATE PARTICIPANTS

Richard Joyce *Reckitt Benckiser Group plc - IR Director*

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Celine Pannuti *JPMorgan - Analyst*

Jeremy Fialko *Redburn Partners - Analyst*

Harold Thompson *Deutsche Bank Research - Analyst*

Charles Pick *Numis Securities - Analyst*

Toby McCullagh *Macquarie - Analyst*

Georg Korcumbe *Manifest - Analyst*

Alex Smith *Investec - Analyst*

PRESENTATION

Operator

Good day, and welcome to the IMS Q1 2016 conference call. Today's conference is being recorded. At this time, I'd like to turn the conference over to your host today, Mr. Richard Joyce. Please go ahead, sir.

Richard Joyce - *Reckitt Benckiser Group plc - IR Director*

Good morning, and welcome to RB's Q1 trading update call.

We'll adopt our usual format and make some brief prepared remarks and then we'll open up the lines to any Q&As that you might have.

So without any further ado, I'm going to hand over to our CEO, Rakesh Kapoor.

Rakesh Kapoor - *Reckitt Benckiser Group plc - CEO*

Hi, good morning and welcome to RB's Q1 trading update conference call.

I will take you through a summary of today's announcement and then Adrian Hennah, our CFO, and I will be pleased to take your questions.

Remember, that this is a trading update only rather than a full set of results.

I start with three simple messages for you today.

First, in tough trading conditions, our strategic focus on health and hygiene power brands in our key power markets delivered a good start to the year with like-for-like growth of plus 5% in Q1.

Secondly, we continue to drive growth in both developed and developing markets. This is central to RB's outperformance.



And lastly, with a good start to the year, we are on track to deliver our full-year targets, which we reiterate today as part of this trading update.

I now want to share some key observations from the trading update.

In ENA we continue to see strong performances in many of our markets with Germany, France, Australia and Spain having a particularly good quarter.

The US and Russia were impacted, as expected, by some retailer destocking on seasonal health and hygiene brands following a softer first half of the cold and flu season.

In developing markets India continues to drive strong growth behind our penetration and innovation programs in Dettol, Lysol and in Harpic.

Brazil saw an improved performance in the quarter. However, this was driven more by a strong performance in pest, linked to the outbreak of the Zika virus, rather than significantly improved competitive or market conditions.

We saw a good growth in a number of other markets, like China, Turkey and Pakistan and we also saw an improvement in the ASEAN after a soft couple of years.

The macro environment in Africa remains very challenging as it is in some parts of the Middle East, such as Saudi. This has impacted some hygiene brands, such as Dettol.

So overall, in DvM, you can see that the picture remains variable. We do not expect this dynamic to change significantly in the near term.

From a category perspective, the underlying picture within our consumer health brands remains of strong broad-based growth across our power brands. The Scholl Amope franchise, in particular, continues to drive excellent growth behind recent innovations like our Velvet Smooth Wet and Dry Express Pedi, our electronic nail file; and the launch of GelActiv insoles in a number of markets.

Durex, Gavison and Strepisils also delivered strong innovation-led performances.

As I mentioned earlier, we did see some anticipated retailer destocking in seasonal brands in the US and Russia, due to the relatively weak first part of the season.

But overall, these results reinforce why we value these categories so highly, even though this double-digit growth trajectory will not always be sustainable.

In hygiene, our performance was variable. The Dettol Lysol franchise was strong in India, led by both penetration building programs and the launch of our new Dettol Gold soap and shower gel.

This was offset, however, by both softness in Africa and Middle East, due to a very weak macro environment; and in the US, where a relatively weaker flu season impacted consumer consumption of Lysol.

Finish had a good start to the year, behind the launch of our new supercharged power ball. Harpic grew strongly in India and several developing markets.

Pest in Brazil was very strong, particularly the repellent segment. I'm pleased that RB is partnering with other stakeholders to educate consumers on how they can protect themselves against Zika.

Overall, I remain very confident about the underlying health and quality of our brands in this category and the opportunity to drive long-term growth. However, our current growth rates are not where I would like them to be.

Home had a very solid Q1, Air Wick performed well behind a number of initiatives like Air Wick Pure and the launch of our Life Scents aerosol in the US.

Vanish performed well in emerging markets behind our penetration program and the launch of Vanish Gold in a number of markets.

Finally, with respect to the full-year outlook, following a good start to the year we are on track to deliver our full-year targets and I am therefore reiterating them today.

They are plus 4% to 5% like-for-like net revenue growth; and moderate adjusted operating margin expansion, supplemented by part of the remaining supercharge efficiencies.

With that, Adrian and I will be pleased to take your questions. Can we have our first question, please?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions).

Richard Joyce - Reckitt Benckiser Group plc - IR Director

Okay, we've got a number of people with questions on the line, so let me open up to the first question from Iain Simpson from Soc. Gen. Iain, go ahead.

Iain Simpson - Societe Generale - Analyst

Two questions from me if I may. Firstly, are you able to update up on where we are now with the rollout of Scholl? It's clearly going very well in driving growth for you guys. Which countries in Europe is it in now? And does it have a sizeable presence in any emerging markets yet?

Secondly, when it comes to MegaRed, how does the size of that business compare to what it was when you bought it? Clearly, you've done a huge amount of work on profitability there, but are you able to give us any indication as to what's happened to the revenue?

Rakesh Kapoor - Reckitt Benckiser Group plc - CEO

Let me just start with the first one. Scholl is in every European market. Scholl is in a large number of emerging markets too. We've talked about Scholl launch in China. We've talked about Scholl launch in Korea, in Brazil and Mexico.

So really, Scholl has been rolled out not by the same name, as you know. We don't have the rights to Dr. Scholl in Americas, because of which we launched it in the Americas under the Amope franchise. But, by and large, Scholl has been rolled out in a vast number of markets where it did not have presence at the time when we bought it. So there is nothing more than that I can update you on.

I think Scholl continues to be successful wherever we've taken it, so I think that's very good news.

On MegaRed, I'm not going to disclose the size of MegaRed today versus yesterday at a brand level. We continue to work very hard on VMS and trying to develop our VMS business, trying to understand the mechanics and dynamics of this category, so that we can build a successful franchise.



We have talked about MegaRed, actually, not only in calls like this, but also in various presentations and meetings. But MegaRed is just one of the four key brands we bought. We bought Move Free, MegaRed, Airborne and Digestive Advantage. Actually, when you think about these four brands, they're not hugely dissimilar in terms of size from one brand to the other.

They are four very interesting brands. We just decided to take one of them from US to Europe and to see how we could make that work. But we continue to work on all four brands and figure out how we can make them sizeable in RB's future growth.

Iain Simpson - *Societe Generale - Analyst*

Thank you.

Richard Joyce - *Reckitt Benckiser Group plc - IR Director*

[Georg Korcumbe, Manifest].

Georg Korcumbe - *Manifest - Analyst*

My first question would be on is there a supercharge update, not so much on the cost side but on any potential impact you are seeing in terms of driving the top line growth. That's my first question.

The second one would be on what was the breakdown in terms of volume and price in Q1?

And the third one, what is the currency impact you expect for the full year?

Adrian Hennah - *Reckitt Benckiser Group plc - CFO*

Let's deal with them in reverse order. The currency impact for the full year, if the rates that are in place at March 31 were to continue for the full year, we would expect a tailwind of about 5% in the full-year translational effect numbers.

In terms of volume and price, in terms of the breakdown, as you're aware, during 2015 we saw a broadly even split between volume on the one hand and price and mix on the other through 2015. The underlying trend was pretty much the same in quarter 1, although our numbers did have a slightly lower volume component, because of the destocking in the US and Russia in healthcare, which impacted more directly on the volume numbers.

As regards supercharge impact on the top line, well, first of all, you're absolutely right, the supercharge program is both a cost program and a topline program. I think we are pleased: we continue to be pleased on the way that the streamlining of the business that was part of the supercharge program is impacting on our top line. So yes, we continue to be happy top line and bottom line with the supercharge program.

Georg Korcumbe - *Manifest - Analyst*

Thank you.

Richard Joyce - *Reckitt Benckiser Group plc - IR Director*

Okay, thanks, Georg. Celine Pannuti, JPMorgan.



Celine Pannuti - *JPMorgan - Analyst*

My first question is on your guidance. I think in February you mentioned that Q1 would be a rather slow start to the year and at 5%, I think it's at the top end of the 4% to 5% range. So I wanted to know whether there was something that did better than you anticipated in the quarter.

And what can we say about the run rate over the next three quarters, given what was supposed to be a slow start to the year?

My second question, if you could give us more color on health. Maybe if you could quantify the impact of the destocking you've seen in Russia and the US and whether the destocking are now ended? I understood that it was broad based, Scholl did well though.

What is really the run rate of this business, maybe excluding those one offs that you mentioned? And whether this is the number we should be looking at for the rest of the year, i.e., you start the year at 10% in health. With the US and Russia destocking, is that double digit; I don't know mid-teen -- low teen/mid-teen something we should be considering for this division? Thank you.

Rakesh Kapoor - *Reckitt Benckiser Group plc - CEO*

Hi, Celine, good morning. First and foremost, this is one quarter and we are certainly at 5%, and we're happy with 5% the first quarter. But you will also note from our release that in the first quarter, we did not have the impact from Mucinex privately below generic entry, which is likely to come over the next three quarters.

You will also note that the second half of the year has different comps versus the first half of the year. So we take all that into consideration when we talk about our guidance for the rest of the year. We are happy with what has happened in the first quarter. But we are also happy with the guidance for the rest of the year.

In terms of health destocking, I cannot give you a numeric answer, which will make all of us happy. I think it is suffice to say that our growth rate in health has been broad based. We continue to focus on healthcare, as we indeed do on our remaining power brands.

We continue to expect broad-based growth in healthcare, although I have pointed out on several occasions that you should not take a double-digit growth rate in health for granted, simply because the underlying growth rate in health is normally 4% to 6%, sometimes at the top end of the range and sometimes, because of seasonality, at the bottom end of the range.

I'm very pleased with the outperformance; a very significant level of outperformance in health, although I cannot tell you what it is going to be for the next quarter or the quarter after that.

Celine Pannuti - *JPMorgan - Analyst*

Can you just, rebounding on what you said on Mucinex, help us to understand, or quantify maybe, what is the size of your business that is going to be at risk from this new launch on the private label side?

Rakesh Kapoor - *Reckitt Benckiser Group plc - CEO*

Again, I'm not going to get into the detail of the size of the business. All I have said is that we expect the vast number of new select lines to be impacted by generic entry in the next three quarters.

'Til now, the Mucinex line still last year was one of them, Mucinex 600 mg, but we expect the remaining lines to come -- to have private label and generic competition over the next several quarters.

Now, all of that has been baked into our guidance for the year. All of that was baked into the guidance for the remaining part of the year, and I think that's where we should comment.

Celine Pannuti - *JPMorgan - Analyst*

Thank you.

Richard Joyce - *Reckitt Benckiser Group plc - IR Director*

Okay. Thanks, Celine. Jeremy Fialko, Redburn.

Jeremy Fialko - *Redburn Partners - Analyst*

Jeremy Fialko, Redburn. Just one question from me. You reference in the statement and in your prepared remarks this improvement in the ASEAN geographies. Could you talk about that in a bit more detail, first of all, which countries?

Secondly, do you think it's more down to the macro of those countries and the end markets? Or is it more just down to your own execution; you feel that you're just doing better relative to the market? Thanks.

Rakesh Kapoor - *Reckitt Benckiser Group plc - CEO*

Yes. I think we had -- a few years ago, if you had watched our statements around ASEAN, we have always said that the marketplace, Korea and Japan, were underperforming versus our expectations and we did fix our underlying performance issues in Korea and Japan, which was good.

But then the macro conditions in the remaining parts of ASEAN turned to be pretty challenging. Indonesia, Thailand, we've talked about those in the past; Indonesia, Thailand, to an extent, Malaysia and Singapore.

I think if I look at between a few years ago and now, which are the markets which we have actually managed to do much better or the trends certainly seem to be better, is actually these markets, like Indonesia, Thailand and, to an extent, Malaysia and Singapore.

So I think if I now look at ASEAN business today, as it was versus a couple of years ago, there is a marked improvement and I would generally call out the market improvement, I would say, 80% because of us and 20% maybe the market.

But, certainly, I think our actions, our programs, what we've done seem to have been bearing fruit, and I'm happy about that. But I would say it's these markets, the current improvement is coming from Indonesia and Thailand, and so on and so forth. It's our actions in the market; our programs in the market are showing better results.

Jeremy Fialko - *Redburn Partners - Analyst*

Okay. That's great. Thank you.

Richard Joyce - *Reckitt Benckiser Group plc - IR Director*

Thanks, Jeremy. Harold Thompson, Deutsche.



Harold Thompson - *Deutsche Bank Research - Analyst*

Just a couple of questions please. Rakesh, you used the word variable when describing the performance of hygiene. If I look at hygiene in the home, they're (inaudible) about 3% organic growth for the moment; that's probably still above market growth. So why are you using the word variable? Is it because you want your rate of outperformance to be higher, or you think the market growth rate is not as good as it should be, i.e., why use variable?

My second question is on -- Adrian, for price. We've seen other results where the pricing has been very skewed to one part of the world, LatAm. Is that the case for you?

And if I can ask just one more, a third one. India, there's lots of reference in India in the text and in your speech, Rakesh. Can you remind us where on your power markets India ranks, because I guess you won't give us the size?

And how broad based is your Indian franchise? Because we hear Dettol, Dettol, Dettol. Does that mean there's a bit more than Dettol in India (laughter)? Thank you.

Rakesh Kapoor - *Reckitt Benckiser Group plc - CEO*

Okay, Harold, thank you. So why variable? Let's just start with hygiene. So, first of all, we've said that hygiene growth rates, we expect the category growth rate to be in the 3% to 5% region. That has not changed; our expectation for category has not changed.

But, as some of you probably realize, that hygiene has a particular skew toward emerging markets. Unlike, let's say, health or home, hygiene has skews and skew is caused by brands purchased, Dettol or Harpic and so on, so forth. So that's something to be borne.

When we talk about variability, it's basically the variability between these numerous brands in hygiene, where some are certainly outperforming the market and some are not outperforming the market.

In aggregate, 3% is not underperformance of the market; it's not outperformance of the market. So 3% is not outperformance in aggregate. Some of these brands are doing better than the others; some are impacted much more by emerging market, let's say, (inaudible) in Africa and in Saudi, and so on and so forth; and some we want to do better in.

I think this variability is much more linked to our ambition, always our drive to do better and better, but the market is probably at the lower end of that 3% to 5%, and that's where the issue is in some cases. But we are not happy, as usual, about our performance where we think we can do much, much better.

And then second question was I think linked to India. I'll leave the price question to Adrian.

India, Dettol is one of the most trusted brands in India. It is surely one of the top two if not the top most trusted brand, so it's such a huge dominant force in the life of Indian people. Therefore, it's very difficult to not talk about Dettol so much.

Dettol is right now partnering the Indian Government in one of the most far-reaching programs of the Modi Government which is cleaning India. So I think that is the stature of this brand and, therefore, perhaps it takes a huge amount of headlines, both from our own internal speeches, as well as --

But beyond Dettol, brands like Harpic, Lysol and some more emerging, growing brands, if you look at the list of top 50 most trusted brands in India, you will find a material number of brands actually from our portfolio there, brands like Moov you've probably never heard of. It's a brand we acquired from part of the acquisition.



Moov, even Vanish, all these brands are now interesting sizes and it just suffers in the stature versus Dettol, which has a 75-year history. But I think we have a very nice portfolio of good brands, which are all doing quite well actually. The whole Indian business right now is outperforming and is outperforming in a very, very good way.

Will you ask me a question how big is India? I will not give you the exact number, but I'm tempted to always tell you how it is. It's definitely top five.

I have said in the press actually, I want to see it as a top three market, and I think it will get there. It will become a top three market not very long from now.

Harold Thompson - *Deutsche Bank Research - Analyst*

Of Reckitt or of your DvM?

Rakesh Kapoor - *Reckitt Benckiser Group plc - CEO*

Of Reckitt.

Unidentified Company Representative

RB.

Rakesh Kapoor - *Reckitt Benckiser Group plc - CEO*

RB (laughter).

Harold Thompson - *Deutsche Bank Research - Analyst*

Sorry, sorry, yes.

Adrian Hennah - *Reckitt Benckiser Group plc - CFO*

Right. So on price, Harold, I'm pleased to say that there is no skew in the price growth to any particular part of the world. We focus very much on trying to get price increases in line with the local inflation. We have been successful in that the last couple of years and we continue to be broadly successful on that. So no skew in the price increases.

Harold Thompson - *Deutsche Bank Research - Analyst*

And therefore, by default, you are, therefore, not seeing broad deflation anywhere?

Adrian Hennah - *Reckitt Benckiser Group plc - CFO*

Yes, correct.



Harold Thompson - *Deutsche Bank Research - Analyst*

Okay. Thank you.

Richard Joyce - *Reckitt Benckiser Group plc - IR Director*

Charles Pick, Numis.

Charles Pick - *Numis Securities - Analyst*

I just had a follow-up actually on India. Can you give a pointer as to the scale of sort of growth you're seeing out there at the moment?

Secondly, on the Zika virus effect on Brazil, is it possible to give a pointer perhaps as to what impact that's had on your Brazilian results; and is it discernible at the Group level in terms of the overall like for like?

Rakesh Kapoor - *Reckitt Benckiser Group plc - CEO*

Yes. So if you want more detail, maybe Adrian will certainly jump in, but on Zika virus, I do not think Zika virus has impacted Group results in a material way.

Adrian Hennah - *Reckitt Benckiser Group plc - CFO*

No, it has not.

Rakesh Kapoor - *Reckitt Benckiser Group plc - CEO*

So there's no material -- has it impacted Brazil? Of course, it has and we've actually been quite explicit to point that out.

On India growth rate, all I would say is that the Indian market is growing now at mid to high-single digits and we are materially outperforming that market.

Charles Pick - *Numis Securities - Analyst*

Right, good. Thank you very much.

Richard Joyce - *Reckitt Benckiser Group plc - IR Director*

Toby McCullagh, Macquarie.

Toby McCullagh - *Macquarie - Analyst*

I think most of mine have been answered, but just one on the medium-term growth outlook if I might. In the annual report, the medium-term KPI on revenue growth appears to have changed and the reference to growing faster than your markets by 200 basis points is now just to grow faster than your markets.



Is that change in any way significant; or is the 200 basis points still valid at the aggregate Group level? I guess, obviously, some of your businesses are better positioned to outperform their markets than others. What do you think the current and medium-term market growth rates are in the health, hygiene and home buckets? Thanks very much.

Rakesh Kapoor - *Reckitt Benckiser Group plc - CEO*

Well, actually our ambition to outperform the market has not changed one bit. Not changed ever, actually, since I have been in the Company, and that won't change.

This Company has one simple -- the language inside the Company is not growth; the language in this Company is not performance. It's outperformance and outgrowth. We are not happy to grow and perform. We are happy only when we are outperforming. So this is never going to change.

We can always talk about semantics, but the ambitions that drive the commitment to do better and better is something which drives us all. So that's all I would say on the growth/outperformance story.

Is there any other question on that?

Richard Joyce - *Reckitt Benckiser Group plc - IR Director*

I don't think so. Is that it, Toby? Yes. Iain Simpson.

Iain Simpson - *Societe Generale - Analyst*

Two more from me, if I may. Firstly, a very tedious housekeeping question, so apologies, but are you able to give us any guidance on the likely FX impact for the full-year at current rates, just given how weak sterling has been recently?

And then, secondly, I think the French's brand has recently moved into ketchup. Are you able to comment at all on how that's going, or if there's been any competitive response? Thanks very much.

Rakesh Kapoor - *Reckitt Benckiser Group plc - CEO*

Right, I think Adrian answered the first question, Iain, but let me repeat what he said. He said if the rates that we see at the end of March were to prevail for the remaining part of the year, the translation impact -- positive translation impact would be plus 5%.

Although, Adrian will not be able to tell you whether Brexit will change any of this plus 5% for the remaining part of the year, because the rates, as you know, have been materially impacted by how the currency markets feel the impact of any likely changes to European or UK position on Brexit will be.

On French's launch in ketchup. I would say we are happy with the launch. It attracted a lot of headlines. All you have to do is do a Google search on French's in Canada and you will see French's Ketchup in Canada and you will see a huge amount of excitement in some parts of the world there.

We are happy with the launch, although, as you know, the underlying business on mustard and the Frank's RedHot are still the two most material parts of the French's brand -- French's or the Company, of the foods business. But the ketchup launch is doing okay; absolutely okay.

Richard Joyce - *Reckitt Benckiser Group plc - IR Director*

Thanks, Iain. If you've got any questions, please make sure you log in. Alex Smith, Investec.



Alex Smith - *Investec - Analyst*

Just a couple of questions on the competitive environment, please. Firstly, on your stain removal business in Brazil, where you had a new entrant come in and take quite a bit of share. I'm just wondering where we are on that, if things have settled down a bit.

And I ask the question because I think, on the back of success, Unilever have said they will look to roll out that category throughout Latin America, so I'm just wondering if there're any other markets in the region where you have high market shares, which we should keep an eye on.

Then secondly, on Scholl. Again, in terms of competition. I think you said RB, effectively, drives around three-quarters of the innovation in that category on a global basis. Seems you're pretty much the [category], but have you seen any evidence yet of competitive response or signs of new entrants? Thanks.

Rakesh Kapoor - *Reckitt Benckiser Group plc - CEO*

I think, on the first question, has the competitive battle on stain removers settled down? It's now about nearly two years since we had the launch of a competitor in Brazil, and I would say we are more in steady-state mode than into an escalation mode.

I think our brands have shown great resilience, I have to say. We have very significant market share, and you know market share sometimes can be able to give you some gain.

But our brands are strong and have shown fantastic resilience, like they did in Europe, actually, many years ago when we also had a competitive launch they showed great resilience. There will always be a short-term impact, and we're okay with that because that's normal. But we are going to fight hard, and that's what we're doing.

If more launches take place, that's part of life. We launch into new categories, we launch into new competitive segments and, therefore, we should expect competition. Competition is not soft and easy in our categories. We are fierce competitors and we are prepared for fierce competition. So I think it's more in balance now in Brazil, which is the biggest market in Latin America for stain removers.

On Scholl, we are probably driving a very, very large part of the total growth of the category, and it's not just in one segment, it's in a lot of segments actually. You've seen us launching into new segments, creating new segments and, in many cases, creating the category in new geographies.

I think we are thinking -- foot care has been quite unloved. You have to think about yourself. Do you love your feet? No, you don't. You don't look after them and we're trying to change that. We're trying to change that, Alex. We want people to love their feet as much as they love their eyes, or their hair, or their face. That is quite a motivating, let's say, ambition for our people.

Alex Smith - *Investec - Analyst*

Thank you. Can I just quickly follow up? You didn't talk about Amope at all in the releases. Is there anything to read into that? I think you said you'd stocked up in the last quarter behind one of your innovations. Did that hold growth back? I'm just wondering why we didn't hear more about Amope.

Rakesh Kapoor - *Reckitt Benckiser Group plc - CEO*

No, We did say, I think, in the release somewhere it's on track. It's on track, so we'll launch into new segments on Amope. We're building the category there. It's on track; absolutely on track.

Alex Smith - *Investec - Analyst*

Thank you.

Richard Joyce - *Reckitt Benckiser Group plc - IR Director*

Right, thank you very much. That's it for questions, so thanks and we'll end the call now. Thank you.

Operator

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.

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