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BN.PA - Danone SA at Barclays Global Consumer Staples Conference

EVENT DATE/TIME: SEPTEMBER 04, 2019 / 11:30AM GMT



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**Warren Lester Ackerman** *Barclays Bank PLC, Research Division - Head of European Consumer Equity Research*

## PRESENTATION

**Warren Lester Ackerman** - *Barclays Bank PLC, Research Division - Head of European Consumer Equity Research*

Good morning, everybody. I'm Warren Ackerman, head of the consumer team in Europe. I hope everybody is caffeinated and ready to go for day 2. We have an action-packed day today. Hope your stamina levels are high. I'm delighted to welcome Danone to open the second day with a bang. We have CEO Emmanuel Faber; and CFO, Cécile Cabanis, presenting today. Danone's 3 Ps, protein and plant-based and probiotics are gaining traction with consumers and it is now a world leader in both animal and plant protein following the WhiteWave acquisition. It's also leading the food revolution, so I'm delighted to welcome to the stage the chief revolutionary CEO, Emmanuel Faber. The stage is yours.

**Emmanuel Faber** - *Danone S.A. - Chairman & CEO*

Thank you, Warren.

So good morning, everyone. Thanks for being with us this morning and hopefully, for a refreshing start in the day. I'll use the next 40 minutes to share the incredible excitement we have about the opportunity of plant-based around the world and the same excitement that we have that we believe we are absolutely uniquely placed to capture this plant-based opportunity and transform it into value.

I'd like to start to set the scene with 3 very simple charts that will tell you what's the framework of the thinking for us and the acting on plant-based. The first is this: this is, as you know, since 2016 now, the One Planet. One Health vision of Danone that's driving us. You could look at this as a communication tagline. But I hope that after these 40 minutes, you'll look at it as well and even more than this, as a business model.

The second aspect is that we have a truly unique business, and this is the reflection of that mission. First of all, the portfolio that we have is one where 90% of our products are deemed for daily consumption, so they are fit for regular diets of people, speaking about health.

The second is that we are very well placed to address the flexibility that more and more consumers now want for their diets. Flexibility being the #1 in fresh dairy but also now the #1 with plant-based, and we are speaking about big numbers. The options that we're giving with our brands for flexibility to our consumers are anywhere between \$10 billion to \$20 billion worth of sales of our brands every year, so it's not marginal. It's a fundamental aspect of Danone's business, addressing that flexibility for consumers.

The third is that we know a lot of these consumers are actually looking at flexible options also because there is an element of the planet and their limits. And being now the leading organic business in the world, the largest organic food business in the world, we believe we are well placed to do that.

And finally, we have a long, long tradition and successful implementation of partnerships and cooperations, and we believe, in this world, it's absolutely fundamental if we want to be able to work with all the activists and stakeholders of this gradual shift of diets and ways of preparing food around the world.

The link between this long-term vision and this business that I just described is a very, very solid set of 10 years goals that we have shared with you already. They are fully integrated. The 2030 goals for Danone are integrating with the SDGs, but they're also supporting for us the strategic planning process, the resource allocation process that allows us to invest for the short, the mid and the long-term. And they are about, of course, our brand model in green, in central, but also the business model that we want to develop. And equally importantly on the right, the trust model, how we



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deal with people. Because if there is one thing that this whole new era of plant-based, of flexitarians, of planet and health is telling us is that there is a lack of trust fundamentally of consumers and stakeholders of our industry. And therefore, we believe it's fundamental to put trust back into the business model.

Having said all of this, let me now turn to the opportunity. The age of flexitarianism. Today, food is part of the solution every day, but it's part of a bigger problem every day as well. This is in the U.K. Every pound, we should say, in the U.K. spent on food actually is also another pound of cost for society, whether that's a burden on the health budget of the country or the people or a burden on the agricultural budget and the future of the way England can feed its citizens. The same is true globally, and I will let you go in details for those of you who are interested in what it actually means.

The fact is that there is a growing scientific evidence that we need new planetary diets. This world of planetary diets is fundamental to the way Danone is conducting its business through this 10-year age of flexitarianism that's currently opening, growing science evidence with a number of reports of universities, academics, governments, multilateral organizations that are one after the other, putting a framework that describes what is a desirable future, what is the only possible future for the food system going forward. And I don't even mention here the FAO report, a 500-page report, that was published at the early part of this year.

Looking at what it means from a macro standpoint. I'll use a few minutes of your time. Stay with me. This is a pretty complex slide, but we'll go one by one. And it illustrates how diets and agriculture work together and how we can change that over the next 30 years. So the example we are choosing here is Europe. EU has a big problem. It imports most of the protein it needs for human consumption, directly or indirectly, and that has huge consequences. And it's eating too much meat, as many other people.

So let's start with what happens today in Europe. The meat proportion, animal based, is the one, which is in red and pink on this chart, and that was 2010. That's how Europeans are eating. This is served by a very intensive model of agriculture that goes with crop production on the left and that goes for Europeans, but exports as well and livestock production, the same. That relies on heavy imports, as I just said. Entrants, soy and others for animal feed, in particular, nitrogen fertilizer, chemical entrants, et cetera. The result, if you look at it from the externalities, is these added points: one, huge greenhouse gas emissions in Europe from agriculture; two, nitrogen losses that go out of the system and are just lost and polluting soils, water, et cetera.; and pesticides, heavy pesticides used.

So the macro model that has been designed by this lab for the European Community shows the future, which I will describe now. 2050, in 40 years, or actually, in 30 years from now, we will eat less animal based, as you can see. I spare the proportions right now, but you can see that from this chart. That will be served by a different agriculture, an agriculture which will be much more nature-based than the intensive we are using right now. That will reduce by 30% the need for crops because we would have reduced by 45% the animal consumption.

The biggest crop utilizer today is animal feed, of course. The results of that is that there is no more need for imports of chemical and fertilizers in Europe at the whole of the European level, and there is no vegetable protein that is needed to import by 2050 in this model for animals.

The externalities is that we reduce by 40% the greenhouse gas emissions with this system. We do not lose any nitrogen anymore in nature. We replace fertilizers to the benefit of insects that are super useful in the biodiversity that supports agriculture, and there is limitation of 90% of the imports.

What you don't see on this chart, and that happens, is that we will reduce by 50% the cost of non-communicable diseases to be treated by 2050 in Europe if you do that. So I've taken probably 4 minutes of your time to do that, to go with you through this, but this is probably the most important chart in my presentation. Because unlike any other company I know of our size, this is the model on which we are basically putting our business at work. This is exactly what drives every business decision at Danone. And this is why we believe there is an absolutely huge opportunity for us to continue to push our strategy because there is huge traction from governments to lower the cost of health, to lower the cost of our agriculture and to migrate into these new diets, which they call planetary diets.

That works at the macro level. But as you know, it works also in your plate. In Europe, again, you look at people, and people say today, and they do, half of them, that they are limiting their intake of meat regularly. And 80% of those people who say that, they say they do that also for



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environmental reasons. So not only the model works, macro and long-term, but it's actually at work, as you know, and that's part of what Warren was talking about, the food revolution that's exactly what we're describing every day. Consumers are right to do that because on this chart, you can see that basically, food accounts for anywhere between 25% and 30%, 1/3 of the total greenhouse gas emissions. Out of that, animals are representing 60% of these greenhouse gas emissions. And among them, beef and lamb, 50% of it, but I promise that pork, chicken are not far in that ranking either.

So if you look at it from a comparative standpoint, here is a more colorful one. On the verticals, you have a list of food that you recognize well. And the horizontal is the greenhouse gas emissions. So you can see that depending on how you grow or you raise animals or vegetables, here you can see that you can have a low, an average or a high impact on nature. And it's a very wide range, actually, of agricultural practices.

So let's start by saying you can challenge conventional wisdom. A chocolate bar that's coming from cocoa, that's coming from a deforested area of rainforest emits more emissions than low-impact beef, meat, the same portion. So it means it's not one-size-fits-all. It means solution by solution.

But then let's speak also at the obvious, which is the bottom part. You see dairy milk and eggs, very low emissions already. But look at what's below, coffee, tofu, beans and nuts. There is no portion of vegetable proteins even with the highest impact that has more impact than the lowest impact animal-based protein.

And this is why plant-based is a fundamental solution to many of the underlying problems that we are facing. And first of all, let me start by saying dairy is still critical. Dairy is critical for policymakers, for scientifics and scientists because, as you can see, it has a very low carbon footprint compared to meat, first of all, closer to soy actually than meat. The same goes for land use, exactly the same proportions. But in a broader sense and back to One Planet. One Health, first of all, it has a major impact on planet. Let's put it today. It's very clear. No one knows around this planet how to go for a transition in agriculture without cattle raising. It's impossible. From a farm revenue standpoint, first of all, as you can see here, and in particular, the value-added dairy is valorizing the milk output of the farms, so it's a fundamental aspect of sustainable farming. And second, it has a huge impact because of the grazing activity which is not possible if you raise cattle for meat: you're obliged to concentrate those in basically industrial farms. Whereas if you start releasing that because you don't need so much crops, then you can use them to graze. And if they graze, they have a very important ecosystem impact on the soil health, on the biodiversity and actually, on the greenhouse gas emissions, because by having the manure of the cows in the fields, you avoid the fertilizers, and the net impact is about 2 tons per hectare of greenhouse gas emissions.

So bear in mind that dairy is fundamental for the balance of the agriculture model of the future. But it is also because of One Health. Here is a study or the result of visuals from a study that was made by the Tufts University, one of the best-known scientists in this field that's basically describing dairy as a protective food. Fermented dairy, yogurt, especially sits on the high side of this arrow where you have fruits, nuts, fish, vegetable, whole grains, beans and yogurt because of the ferments, because of the calcium, because it's a staple food that brings essential amino acids that no one else can bring.

So having spoken about dairy and why it will continue to be a very important part of the diet in the future, let me now turn to the flexitarians. And by the way, it's interesting to see that most of the wave, as you know, about the flexitarianism is about not moving totally away from animal-based but really depending on moments of consumptions, occasions, diets, moments in your life, you're choosing to reduce. And about 20% in the U.K. of people are saying that they're doing this, flexitarians. And interestingly, it's across generations. It's not only the millennials. It's not only your kids. It's really even your parents, my parents. Everyone is now gradually moving, and you can see that the same appears for vegetarians where you have a little bit less for the 55 of age and plus. And still a small but important vegan proportion of consumers, but they are a very small proportion.

So flexitarianism is really what's going to drive the market growth in the future. Again, there are good reasons for moving to plant-based. The reason is that science tells us that proteins from plants are low in saturated fat and high in unsaturated fat. Unlike many of animal proteins, they are very high in fibers, they are rich in different nutrients and they have a good nutrient density.

There is actually increasing evidence and now consensual evidence that they also reduce the prevalence of non-communicable diseases. You can see that here, so the non-vegetarians are on the left, the prevalence of diabetes type 2. And by going any kind of flexitarian up to vegan, you can reduce by 20% to 60% the risk of prevalence of diabetes.



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So I would like, at this point in time, to make a small loop around one thing that I think is important for the future because among all of those plant-based proteins, there is a sleeping beauty. That beauty was brought by the Chinese at about the same time than Mesopotamia was discovering agriculture. And it's grown then to Japan and Asia, and it's now in the U.S. and many other countries, and that's soy.

Soy has among the highest nutritional values of all proteins and the best among all plant-based proteins. The protein score that you have here shows that soy is actually higher than beef and very close to eggs and milk casein. But this is twice more protein score than rice or then you don't even see wheat here or almonds or nuts. They're below that.

Soy has this absolutely unique pattern, and it is scoring better, therefore, than all other plant-origin proteins. It's a source of very high-quality proteins in a sense that it's the only plant base that has a balanced amino acid content which is enough for our diets. It's less than milk casein or eggs, but they are more than what we need, so they can rebalance your diet. Soy cannot, but soy can make a living for you in terms of amino acid essentials that you need for your organism. It's a fundamental part of the diet of many people around the world. And the other part is that it's very low in saturated fat unlike many other proteins. And it's very low in sugar, unlike many of the cereals.

So soy has something magic around this and, by the way, there is now a consensus beyond the fact that there is a debate about the molecular structure of soy where isoflavones are quite similar to the human estrogens. And depending on science, countries, regulations, the topics about this, there's no doubt about this, but there is a consensus on the fact that soy reduces cholesterol. That is beneficial for cardiovascular health. It lowers the risk of several cancers, and it's actually super efficient because of antioxidants on anti-inflammatory and muscle recovery. So you will see more of soy. That's not the end of soy. It's a sleeping beauty, and we'll come back to that may be not today, but count on us to come back to that in the coming years.

So back to my mainstream discussion here. Flexitarian diets are becoming, therefore, a prominent feature of mainstream food culture. And as a result, we've already a pretty large market for plant-based. We expect it to continue to grow a very high single digit 9% to 10% in the next 5 years. That's the first part of what I wanted to share with you.

What I didn't say, I mentioned governments, planet, budget, science, consumers, but we didn't discuss trade. The other reason why there is a huge momentum behind the plant-based opportunity is because of the trade. On this chart, you can see that just looking at the dairy baskets, the fact that you add plant-based is incredibly value enhancing for the trade. It's bringing between 25% in Netherlands to 35% in the U.K. to the dairy basket of shoppers through a mix of additional volume, pricing and value but also the fact that there are overspending shoppers, as we know, and we shared already, millennials, not only them, but millennials are affluent customers, so they're actually driving shoppers that are essential in the food revolution for the large trade industry that we are serving with our products.

The same goes if you look at the broader grocery aisle. Look at this. Basically 2x in the U.S. per trip from grocery, if you buy a plant-based or if you don't. And the same in France that you can see here, 2x, EUR 40 versus EUR 17 per trip. This is absolutely incredible how the plant-based opportunity is actually driving an up-trading in the shopper behavior for the trade.

And therefore, no surprise, if I look at France, that if you take the first horizontal bar, this is about plant-based milk. You can see on the left an average number of SKUs that's been growing 14% per annum. So an increased offer by the trade to bet on the category. And the shelf space coming with that, it's booming, and you can see 18% growth in the plant-based milk in France over the last 3, 4 years.

But now look at the lower part, which is the plant-based alternative yogurts. The increase is 30% in both cases and interestingly, it starts later. It starts in 2018. And 2018 is the moment when Danone moved Alpro into that space.

We basically moved that category super fast at the retail and Alpro accounted for 50%, starting from 0 in plant-based yogurt, 50% of the category growth over the last 18 months in France. So that's a transition for me to share with you why Danone is able to move the needle so fast and why we believe we are absolutely uniquely placed to seize this value opportunity that's underlying the plant-based and the flexitarianism diets.

Basically, I would like to come back to the fact that what's behind what I'm going to share with you for the next 12 minutes is multiplying by 3 our plant-based sales from 1.7 billion to 5 billion by 2025. So how are we going to do this? First of all, we are starting from a pioneering standpoint,



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with the acquisition of WhiteWave in 2016 that's bringing us a #1 position in North America and a #1 position in Europe with our brands. And Europe is about 40% of that now.

If you look at the numbers, first of all, compared to any pure plant-based players, you look at some people we've highlighted here, Danone has 1.7 billion and you have a few of the others. We are a multiple of the size of the other pure players of plant-based.

If you think about non-pure players and our peers, the people you invest in, 7% of our sales are in plant-based, which is 5x more in terms of proportion and exposure to the second-largest one.

So we are starting from a super strong position relative to competition. This is actually simply illustrated and made by how we operate and perform in the various categories. So to start with, soy, the sleeping beauty. As you can see, we have broadly in all mature countries, above 60% market share. Most countries are between 20% and 50% market share. In almond, which is growing fast and it's core engine in this country, in particular, as you can see, and as you know, we are about 40% market share in the U.S. and even stronger market share sometimes more than 60% in a number of the core European countries.

To share another example, the very fast, still small but emerging and growing oat opportunity in this country, we have about 30% market share, and we are catching up in many others against the new entrants. And when it comes to the total, that brings you to a very strong leadership of our brands across the board.

In plant-based yogurt alternative, as you can see, it's even more dominant in terms of our market shares, country by country and globally. This is not by chance. The reason is that our products are simply superior in liking by consumers and not at the margin, by a big distance. And that big distance, whether this is in Europe or in the U.S., is not by chance again. It's because it's a return on the investment that those companies, those brands have made for decades on that technology and the way, step-by-step, in the transformation process of plant-based protein, they are able to deliver the best palatable options for consumers.

If you look at Alpro for just 1 chart. This company started in 1980, so it's been there for 40 years. And for over 40 years, they've done what I illustrated here on the right: the lines are basically about 15 different sources of proteins that you can find in nature. And they are working that, I'll read it for you, solubility, gelling, emulsion, foam, sensory profile, protein source, off-taste, bitterness.

With each of those, they're able to profile each of the ingredients and to use the blends of them to come up with absolutely superior solutions. And they've been doing that for years and years and years, and we are now accelerating that with the R&D of Danone, with the support that we can bring to them to even go beyond that. So it's not a surprise. It's been heavy, long work that cannot be reproduced overnight.

So it means that when you look at the span of the mature ingredients, the growing, the booming, the emerging, the tomorrow ingredients like chickpeas, chia or hemp, we are there. We are ready to act. We have a possibility to formulate solutions that are truly unparalleled.

And now back to Warren's advertising minutes for our 3 Ps. Let me restart from the fact that by combining the WhiteWave, Silk, So Delicious and others here in the U.S. and Alpro brands in Europe and beyond, with the Danone expertise in fermented dairy and probiotics, we are coming to this magic triangle where if you look at these 3 Ps, plant-based, probiotics and proteins, they're all growing high single digit or double digit. And we believe this is, in the middle of this triangle, that most of the solutions of planetary diets are going to occur.

So it allows us to go even beyond, through our Manifesto Ventures fund that is based here in the U.S. So we are growing dairy-free yogurt, coconut-based with Harmless Harvest, which is an iconic brand here. We are growing oat dairy-free milk coming from Scandinavia based here in the U.S. just launching with Hälsa.

We are going for research and innovation partnerships with Mycotechnology, for instance, which is a small start-up in Colorado that we're working with, super interesting on mushroom-based proteins. InnovoPro, which is another of our partners. It's an Israel-based company on chickpea protein, one of the, as I said, emerging proteins of the future.



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Back to the Manifesto Ventures. As I know, there is excitement about meat replacements in this room and beyond. We are partnering and supporting the growth of a very small company called Sustainable Bioproducts, which have engineered from a fungi that they found in the most extreme conditions in the Yellowstone region, a solution to sustainably grow protein that can serve the purpose of being a replacement to many, many things beyond dairy and potentially, meat.

Based on these 3 Ps, we are also not only growing the core business of plant-based but going into adjacent categories. And these adjacent categories like ice cream, like coffee, culinary, plant-based nutrition and bars are recruitment levers for us for consumers in that category.

One example is coffee. In coffee, big opportunity. As you know, a big category, growing. So not only we developed a brand from scratch called Stok, which is a cold brew coffee that's growing super nicely here in the U.S. from 0 a few years ago and already a sizable business. Secondly, we are leveraging the coffee shop experience to deliver our own ready-to-drink coffee solutions, plant-based aromas and creaming. But we're also developing a barista professional Alpro product that in the U.K., for instance, has been growing 40% over the last 3 years.

And this is interesting because it takes us into another territory, which is on this chart. Two things you need to know about these coffee shops, and many people, I think, would be better placed than me to share that with you. But one is the more you drink coffee, the more you cream coffee. So they go together. And the more you cream coffee, the more you want it good for you, cream and coffee. And therefore, you go for plant-based.

And now, today, it's come to the point where for any given retail outlet of coffee, the cost of milk overall is higher than the cost of coffee many times. So we are talking about the strategic partnership here, and this example is one that we did with Costa where basically, Costa was prepared to enter with us into this co-branding campaign where they consider that the Alpro solution of plant-based is actually driving traffic towards their shops. As you can see on this billboard external, it says, "Go to Costa if you want to enjoy this experience."

We are also making sure that we are doing our job on the visuals and walking into the visuals and the new slate of visuals for our brands here as well in Mexico, in Europe for Alpro, in Europe for our organic brand Provamel, which has been the leading and pioneering organic brand in the plant-based space in Europe for many years. But we're also looking at our backyard. The backyard of our brand is super important because this is why the consumers are turning the cup on the shelf and looking at the small print back on the pack. Back on the pack is the backyard. That backyard, we are using all the assets that Danone has developed as a company, sustainably growing and farming every solution. So the sustainable coconut center is at the core of the story for Harmless Harvest.

Tomorrow, International Delight is going to be the first-ever brand in this category to be fully segregated palm oil, the first in this country, way beyond the RSPO basic standards. And lastly, Silk, for instance, in this country, we believe in biodiversity. We believe nature works for us, and that's one way for us with this program to make sure it does.

We are also leveraging the health heritage of our non plant-based brands to bring them into the space of plant-based. So Stok, the coffee brand, has now an oat milk, which is coffee flavored and almond milk, which is coffee flavored. Oikos, our dairy brand here, indulgent greek yogurt now has a plant-based version, a coconut milk since January this year.

Danoninho in Brazil, which is a 30-years old brand leading in the kids segment, now has a plant-based offering. And soon, Activia, our flagship probiotics brand around the world, is going to have, in Europe, as well its own version. So all of this is opening new spaces, and one of the last thing that I would like to mention to you is we are looking at the next generations as well.

There is a huge prevalence of allergies around the world, and some of these numbers are here. We share that with you as well. Of course, this is hugely important for infants and kids. If you look at where consumers are looking for solutions, they go for plant-based. And it happens that Danone is the largest plant-based IMF provider, infant milk formula provider in the world, in particular soy. So you can see that we can build also the generations of tomorrow and how plant-based can be a solution for the generations of tomorrow. And then there is a tailored geographical expansion in space, not in time. With the mainstream countries, we're going to continue to maintain our leadership and our market share there.

In the fast-growing countries, we're going to catch up, and that's what we're doing. In the emerging countries, we want to establish plant-based and grow market shares. And there are a few very interesting countries, in which we will reestablish the brand as a market innovator because the



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market is not growing, and we believe it can grow way beyond it does. All of this is to say that we are super confident, with those fundamentals of the opportunity, why we can win this opportunity to build a EUR 5 billion business with our plant-based in a bit more than 5 years. 1/3 of that will come from the core business that will continue to grow high single digit as it does today. But the rest will come from the geographical expansion on one side and the new category, in particular coffee, that way beyond as well.

In a nutshell, 4 things I want you to retain from this conversation this morning. The 4 competitive advantages that are making Danone unique in its ability to win in this is an x times, multiple times brand leadership in the core segments. And that goes with science and technology.

Second, this incredible chilled retail shelf synergies that we have as the leading in the world of chilled cabinet player and all the away-from-home opportunities that we have, including with coffee, but I mentioned culinary as well, for instance.

The assets that the Danone One Planet. One Health practices and expertise had done for the company for so many years is spot on to make sure that our brands are winning in plant-based in the flexitarianism era in the future.

And finally, talking about focus, talking about scale. If you add the 3 or the surface of the triangle of the 3 Ps, plant-based, protein and probiotics at Danone, we're talking about 3/4 of our sales, more than EUR 20 billion. So we are not a start-up in this. We're a major player, and it gets the amount of attention and the size of the resources that a company like us can put to building that future. Because at the end, the One Planet. One Health is not only a vision for us. It's a business model that is going to create value. Thank you.

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**Warren Lester Ackerman** - Barclays Bank PLC, Research Division - Head of European Consumer Equity Research

(inaudible). We'll take the questions next door, Emmanuel, if you don't mind.

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**Emmanuel Faber** - Danone S.A. - Chairman & CEO

Great. So join us next door for questions. Thank you.

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