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# Visa, Inc. (V)

Deutsche Bank Technology Conference

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## MANAGEMENT DISCUSSION SECTION

Bryan C. Keane

*Analyst, Deutsche Bank Securities, Inc.*

Okay. Let's get started here. I am Bryan Keane, I cover payments for Deutsche Bank, and we're excited to have Sam Shrauger who's SVP of Digital Products at Visa. So, Sam, thanks for being here.

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Sam Shrauger

*Senior Vice President-Digital Products, Visa, Inc.*

Oh, thanks for having me.

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## QUESTION AND ANSWER SECTION

Bryan C. Keane

*Analyst, Deutsche Bank Securities, Inc.*

Q

I think, one of the things that, that people were struck by, to start kind of high level, was at the Analyst Day you guys were talking about a 10x opportunity, and given the size and the history of the company, I think people were surprised to kind of hear that. So, maybe you can help us unlock just kind of on a big picture thing that, that 10x opportunity, where is that coming from for Visa?

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Sam Shrauger

*Senior Vice President-Digital Products, Visa, Inc.*

A

Sure. Look, I mean, is it 10x or is it 8x, I don't know, but if you look at sort of what's going on in different categories, obviously there is a lot of developing market acceptance that we can continue to build. There are a whole bunch of new transaction categories that are coming out of the woodwork in terms of new forms of digital transaction, new forms of acceptance. So, I think, you look at the mobile device and you look at all of the IoT devices, and you think about how those things will be connected, and probably transactional in a lot of cases. And I think we just see a lot of growth in electronification generally. And that's going to take a whole bunch of different forms depending on what geography you're in, but I think this secular trend, I guess, of payment electronification is just going to continue.

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Bryan C. Keane

*Analyst, Deutsche Bank Securities, Inc.*

Q

Can you talk a little bit about some of the investments that Visa has been making in technology, and kind of your view on, on the impact of how the evolving ecosystem of payments continues to change?

Sam Shrauger

*Senior Vice President-Digital Products, Visa, Inc.*

A

Yeah. Look, I think, the biggest thing going on obviously is just digitization generally. So, we've invested a lot in the Visa Token Service which is essentially the foundation that we're building all of our new digital forms of payment on. So whether it's the Apple Pays, the Samsung Pays, the Android Pays, applications that issuers are building to allow their consumers to pay, all those things are built on a foundation of the Token Service and that's going to continue to be the case as we get into more and more connected devices. So, that's a big one for sure.

And I think, the other place where we're doing a – putting a lot of energy is, in our fast payments and what we would call it push payment solutions, but essentially the ability to push funds to a Visa card, whether it's from another card or from some other stored-value system. It's a big area of focus, not just in a sense that developing markets are using it, but it's also a foundation for a lot of either person-to-person or person-to-small business or small business-to-contractor kinds of payments. So, we're seeing a lot of energy in the market, I guess, around that as well.

Bryan C. Keane

*Analyst, Deutsche Bank Securities, Inc.*

Q

Yeah. I was going to ask a couple of questions around Visa Direct. That was obviously highlighted at your Analyst Day and Mastercard's Analyst Day that, that big opportunity. Can you just talk a little bit about the technology, I mean it sounded like Visa Direct has been around for a little while but now how do you promote it and how do you get volumes to shift on the Visa Direct?

Sam Shrauger

*Senior Vice President-Digital Products, Visa, Inc.*

A

Yeah. So it has been around for about 10 years, actually maybe even more. But, the reality is that, I think, we're just starting to see a lot of the technology that goes around that technology developing, meaning that, we're seeing people wanting to make payments from social networks, we're seeing people who want to push funds from their Uber proceeds to their debit cards, so they can buy gas and continue to driving.

We see a lot, and you know the gig economy is driving a lot of this kind of stuff. And so I think, in a lot of ways, we do do the promotion, but it's really others who are utilizing the service and exposing it to the consumer. You can think about things like Square Cash, Facebook Payments, those things are all fundamentally sitting on Visa Direct or riding those rails, but it's not a consumer facing product per se that we promote.

Bryan C. Keane

*Analyst, Deutsche Bank Securities, Inc.*

Q

I think on the Analyst Day you guys highlighted that you're hoping to increase the real-time acceptance point's payments by 700 million cards over the next 12 to 18 months. What's the – is that difficult thing to do or is that just turning on a switch? And then, how do you – will we start to see that incremental volume right away?

Sam Shrauger

*Senior Vice President-Digital Products, Visa, Inc.*

A

Well, I think, look there is work to be done for sure to develop the markets and get markets enabled for these types of payments to occur. At the same time, I think there is a lot of interest in the market that's driving the

demand for that to actually happen. So the hard work of getting issuers enabled to be able to post funds in real time, acquirers and transaction originators able to generate those types of transactions.

But again, I think, there is a lot of demand in various geographies, whether it's developed markets or developing markets for this type of transaction. And so, it's certainly an achievable goal, but it takes hard work.

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Bryan C. Keane

*Analyst, Deutsche Bank Securities, Inc.*

Q

Mastercard acquired recently VocaLink as a way to get into the faster ACH or real-time payments. Visa is arguing that Visa Direct can do the same thing, can you just compare in contrast Visa Direct, how that compares to VocaLink and why necessarily that strategy is not necessary for Visa to implement what they want to do here on real-time payments?

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Sam Shrauger

*Senior Vice President-Digital Products, Visa, Inc.*

A

Yeah. If you think about it, right – so a real-time or fast ACH really is allowing one DDA – to push ones to another. And quite honestly, with the exception of the fact that the number that you're sending funds to is a Visa card number as opposed to routing an account number. Functionally, they're identical. And so the ability for us to enable fast payment used cases without needing to have yet another network to do it, that's why Visa Direct was built in the first place.

So, I just think if you look at the use cases, if you look at the needs that the market is trying to solve for with fast ACH, they're all achievable with Visa Direct.

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Bryan C. Keane

*Analyst, Deutsche Bank Securities, Inc.*

Q

Just to finish up on real-time payments, you're hearing more and more about the [ph] Fed (07:48) trying to giving real-time payments in all different countries even outside of the U.S., the common question I always get is does this pose any kind of threat to the traditional networks and what they're doing?

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Sam Shrauger

*Senior Vice President-Digital Products, Visa, Inc.*

A

Look, ACH payments have been out there for ages and in some cases in many markets actually the settlement times are not necessarily real time, but close. And again, we've managed to compete very effectively in those markets without the need for having a real-time ACH capability.

And, in markets where that there are already fast payments or fast ACH payments. So, look, I mean, how is it all going to play out and by what geography, I don't know. But at the same time, I feel like we're very well positioned relative to any of the fast ACH options, just given the fact that – again that's what the network does already and we've, I think, demonstrated that we can solve that problem pretty effectively.

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Bryan C. Keane

*Analyst, Deutsche Bank Securities, Inc.*

Q

And there has got to be a lot of challenges to leverage that new payment network into the retail C2B type payments?

Sam Shrauger

*Senior Vice President-Digital Products, Visa, Inc.*

A

For sure. And I think – look, again what we've done over 60 years is build acceptance, build consumer adoption, build usage, and this is all just a different form of that same issue. But there is so much opportunity out there to do that and do it in different ways that we feel really good about it because now you've got – every mobile device on the planet could become an acceptance location, and again billions of devices are going to be connected to the web and many of them will be transactional and we just – that's a great growth opportunity from our standpoint.

Bryan C. Keane

*Analyst, Deutsche Bank Securities, Inc.*

Q

Can you just give us an update on VDEP and tokenization in general, where has that been and has that been up to up the plan of kind of how you expected the rollout?

Sam Shrauger

*Senior Vice President-Digital Products, Visa, Inc.*

A

Yeah, I think if anything we've rolled out the Token Service more quickly than we had originally planned. We're in 27 markets now [indiscernible] (10:14) with issuers, we've enabled 50 plus and obviously there is work to do to get issuers integrated to the service, but it is available.

So I think we're pleased with the pace of that, we always want to go faster. But I think in terms of what our plans were and the progress against those, we've done very, very well and it continued to be – it's a big priority.

Like I said, as far as all of our growth in digital, it's going to be predicated on that foundation, because that that is the mechanism by which we secure any of these digital transactions whether they're QR codes or whether they're tap to pay or whatever the next thing maybe Bluetooth Low Energy, who knows. But the global expansion of that and getting that foundation in place has to be the priority and I think we've done a good job of developing that.

Bryan C. Keane

*Analyst, Deutsche Bank Securities, Inc.*

Q

Is moving card-on-file another big opportunity to move that over to tokenization as well?

Sam Shrauger

*Senior Vice President-Digital Products, Visa, Inc.*

A

Yeah, if you think about – the goals of tokenization were really two things. One was to devalue the information that's stored in every repository and databases around the world by merchants, and also to give – to create more flexibility in the types of payments that can be done, like I said with a lot of these – well, all of these digital payments we wouldn't do, but for tokenization, card-on-file's obviously a huge part of that, because there are hundreds of millions of cards stored on file around the world.

And not only can we devalue the data that comes along that's stored with the merchant and reduce the risk of compromise. But those transactions also have a lot of benefits on the merchant side in the sense that your card number may change if you lost it or it was reissued for some reason, but the token that you've stored on file with, the merchant won't. And so you're not left in the situation of having to run around and update every card that you ever stored everywhere on the web, because the card number again may change in the background, but the token will not.

And as a result of that the merchants see higher authorization rates and there are just a lot of benefits to that that go above and beyond just removing sensitive data from databases around the world.

Bryan C. Keane

*Analyst, Deutsche Bank Securities, Inc.*

Q

Just thinking about mobile payments and adoption of mobile payments, can you just talk a little bit about where we are in adopting on mobile payments internationally and then in the U.S.?

Sam Shrauger

*Senior Vice President-Digital Products, Visa, Inc.*

A

Yeah. Look, I think, obviously terminalization has been an issue in terms of – actually most of the terminals are actually NFC enabled and tap to pay enabled, they just may not have that functionality turned on. So the equipment footprint is out there and then it's just a matter of getting those devices activated. And that's, I think we all talk about that, it's been an impediment on some level to mobile payment adoption. At the same time, I think over time, as we see consumers become more comfortable with devices and the questions about the security of those devices are answered that – that the propensity to use them is increasing.

In the rest of – well, not the rest of the world, but in a lot of other geographies, it's going to take a very different form, that'll take the form of scanning and QR code to pay. And while it's a different use case, it's essentially a different form of – of mobile payment.

So, I think we'll see it develop in different ways around the world and in different markets, but certainly the mobile device isn't going anywhere and the ability for that to become an accepted vehicle is enormous. And so, I think we're going to see growth around the world and that's just a question of what form it takes.

Bryan C. Keane

*Analyst, Deutsche Bank Securities, Inc.*

Q

At the Analyst Day, I think you guys were highlighting the usage of QR codes in India in particular for the demonetization there. Are you seeing growth in the emerging markets for more QR code type payments?

Sam Shrauger

*Senior Vice President-Digital Products, Visa, Inc.*

A

Yes. The short answer is, yes. I think the India demonetization was, I think, a forcing function for a lot of other government entities to look at how electrification could happen and would happen in their markets. And again, just given the – the cost of what terminalization given the fact that there isn't necessarily a power outlet and the landline anywhere close to the merchants or consumers in a lot of these markets, that – that QR will be away, that is adopted because it's very cost effective, it's very simple to use, and again it has all the characteristics of what we would consider our traditional card payment, [ph] pole payment (15:59) as we will call it, and it has very little cost of entry in terms of getting access to the system, as either a merchant or a consumer.

Bryan C. Keane

*Analyst, Deutsche Bank Securities, Inc.*

Q

Wanted to see if I could get an update on Visa Checkout and where you guys stand on that, since the last time we've talked about, it seems like adoption actually has done a little bit better on Visa Checkout?

Sam Shrauger

*Senior Vice President-Digital Products, Visa, Inc.*

A

Yeah. So, we're at 24 million plus consumers, continue to focus on acceptance growth. We are doing, I would say, more international focus, obviously with Europe, we've launched the product there. And we feel good about it. Again, it's effectively the act of building acceptance and consumer adoption again, but as far as how that's going versus our plan we feel good about it.

Bryan C. Keane

*Analyst, Deutsche Bank Securities, Inc.*

Q

How does Visa Checkout differ from MasterPass and what they're trying to do?

Sam Shrauger

*Senior Vice President-Digital Products, Visa, Inc.*

A

Well, functionally, take a step all the way back, I think the number one goal of any of these solutions is increasing the ease of use of cards in an online environment, and particularly as the screen gets smaller on mobile. And we've spent all of our energy and time focusing on ensuring that that product is as highly converting for the merchant as possible. And just by way of example, roughly speaking, 65% of people who put something in a card will – and start to check out will actually finish if they're on a full desktop computer. If they're on a tablet, it's more like 45% of people who finish their transactions. If it's a mobile device, it's often 20% or less.

And we convert, across devices, at 80-plus percent, and that's actually consistent regardless of the screen size. So, you know, we feel good about that and that's what we sell on and what we, I think, have been successful. How do we – how is it functionally different? You know, there are nuances to how the products work that are slightly different, but I think, we have shown that the problem we set out to solve is one that we have actually solved effectively.

Bryan C. Keane

*Analyst, Deutsche Bank Securities, Inc.*

Q

But Visa Check, if I understand it right, doesn't have a mobile wallet per se, right? It's mostly just for e-commerce on the desktop?

Sam Shrauger

*Senior Vice President-Digital Products, Visa, Inc.*

A

Yeah. Well, we don't have a – we don't have a mobile application for use in the physical store and MasterPass has varieties of that. But we've done that for a reason, which is, first of all, the in-store purchased experiences has been solved in a way that the online and mobile commerce experiences haven't, and so it's really our issuers who own those relationships with consumers and we want them – consumers to pull out their issuer card in-store. There is not a problem there per se that we feel that we need to solve.

Bryan C. Keane

*Analyst, Deutsche Bank Securities, Inc.*

Q

I think, last time we talked, the PayPal deal with Visa wasn't announced yet. You obviously came from PayPal, so – in your former life. So, I guess my first question to you, since you've been on both sides of the table here, where you a little surprised that the two could come to an agreement, Visa and PayPal, and kind of work more together than compete?

Sam Shrauger

*Senior Vice President-Digital Products, Visa, Inc.*

A

No, I wasn't, and the reason is that well, fundamentally, I think – I don't want to speak for PayPal, but I think they are evolving their strategy as they grow and so are we as digital comes upon us. And honestly, there are a lot of good reasons for both PayPal and Visa to work together in ways that were good consumer experiences and again, we are helping to solve the fundamental issue of card usage online.

So, no; I mean, I really wasn't. In a lot of ways, it made sense and may not have been something that either company did 10 years ago or 5 years ago, but I think given the way we all see the world evolving, I think we can both look at it and see that there's benefit there.

Bryan C. Keane

*Analyst, Deutsche Bank Securities, Inc.*

Q

Does it minimize at all, the Visa Checkout solution, if you guys are also partnering with PayPal?

Sam Shrauger

*Senior Vice President-Digital Products, Visa, Inc.*

A

I think it's a matter of consumer choice. Consumers will gravitate toward whichever products, whatever products they find most useful, simple, et cetera and so I don't look at it as competition per se. I think, again, we are both solving the problem of simplifying card payments and that's good for everyone, and I think PayPal has certainly shown that they can do that effectively.

We're working with them as partners and we're also developing Checkout, but I think ultimately it's consumers who will make the choices about what they prefer, but not intended to be a competition per se.

Bryan C. Keane

*Analyst, Deutsche Bank Securities, Inc.*

Q

How's the partnership been? Have you guys seen an increase in Visa volumes as a result of the partnership?

Sam Shrauger

*Senior Vice President-Digital Products, Visa, Inc.*

A

Well, I think it's been going well. In terms of the actual numbers, obviously, I can't get into those, but I think given the fact that consumers have choice and free choice, but that's obviously helpful for the card networks. The other things that we're doing with PayPal are things that are accretive to both of us in terms of letting consumers use Visa Direct, for example, to exit funds from their PayPal account and get them posted to their debit card in real time.

And so, there are a lot of things like that why I think the systems are mutually complementary and that's been a good thing as well.

Bryan C. Keane

*Analyst, Deutsche Bank Securities, Inc.*

Q

As PayPal moves to monetize Venmo, do you see that as a competing solution or do you guys still can see that as a partnership?

Sam Shrauger

*Senior Vice President-Digital Products, Visa, Inc.*

A

I've been asked that a lot and honestly, I don't personally think of it as competition. I mean, look, the Venmo system is used by a segment of the population, a demographic, and there's utility to those consumers for allowing it to be used. Is that a threat to be used for a transaction, is that a threat to the networks per se? I don't think of it that way.

Bryan C. Keane

*Analyst, Deutsche Bank Securities, Inc.*

Q

Just beyond the PayPal partnership, you guys have been, I think, more open to open APIs and to open up the network. Can you talk a little bit about the Developer Program that you guys have and what that's created? What's the goal you're trying to create?

Sam Shrauger

*Senior Vice President-Digital Products, Visa, Inc.*

A

Sure. Well, I mean if you look at the Visa system, it is a set of capabilities that can be used for everything, from transaction processing and transaction initiation to risk management, to reporting, and there's a lot of value to opening that up such that others can create utility around that. And so that's been our philosophy with the Developer Platform.

We're not the only ones who are going to create new and unique payment solutions, and in fact, a lot of the parties I was talking about earlier, whether it's the Square Cashes or the Facebooks and others, they are using those APIs to create utility for their users on their platforms and that's great, because we're a network, we're not going to be in the process or in the business of building every payment application that could be out there or a payment-enabled application, but we can certainly provide the tools to those who want to do that.

And that's really the foundation of what we are doing with the Developer platform. It is intended to allow innovation to happen around the network and I think doing it in some very interesting ways.

Bryan C. Keane

*Analyst, Deutsche Bank Securities, Inc.*

Q

By the way, we can open it up for questions. So if you have a question, just raise your hand, and we have a mic here.

Sam, do you look at and study the opening up of the market in Europe and PSD2 and what that might mean to the networks and to the marketplace?

Sam Shrauger

*Senior Vice President-Digital Products, Visa, Inc.*

A

Well, yes. The PSD2s, there's a lot of discussion of it these days. I think everyone, whether they're in that market or they're operating in that market, are thinking about it is sort of sorting through the pieces. But again, I think there is an opportunity here for Visa to help our issuers create value for their customers in ways that while others may have access to the account or account information, be able to initiate transactions against the account. There's a lot the issuers can do to maintain the stickiness of their relationship with the consumer in ways that we can help them do that.

I talked a minute ago about the ability for – with cards-on-file to not – they have to be updated every time there's a reissuance, but there are also tools we're building around that that allow consumers to see every card that they have stored or every place that they have a token stored on file, and be able to choose whether or not they want that token to stay there or turn it on, turn it off, put limits around it, and those are all things that are only going to be done through an issuer. So, I think there's a lot that we can do, to help them be successful in that environment.

Bryan C. Keane

*Analyst, Deutsche Bank Securities, Inc.*

Q

So, when you net it out – and we've written about this and tried to study this as well, but do you guys see it more as a positive for incremental growth in revenue or do you see it as potentially some cannibalization to lose some market share?

Sam Shrauger

*Senior Vice President-Digital Products, Visa, Inc.*

A

I think the opportunity is actually allowing issuers to create more value that may not be directly transactional, and that may take a different form of monetization for us. I'm not saying it will or it won't, but I do think that a lot of what we're focused on to helping issuers compete in the PSD2 environment, is to really give them ways to create value that spans beyond the transaction. And does some of that flow to us or not, I couldn't say that right now, but I think we think there's an opportunity there.

Bryan C. Keane

*Analyst, Deutsche Bank Securities, Inc.*

Q

All these initiatives we've talked about, you know, if it's Visa Direct, real-time payments, tokenization, opening up the network, it all seems to push – trying to push more volumes for Visa to switch more transactions. PSD2 creates that opportunity as well. The goal – I mean, how can Visa promote and push more transactions [indiscernible] (28:28) can switch themselves versus competing [ph] where (28:32) some of these domestic schemes across the globe?

Sam Shrauger

*Senior Vice President-Digital Products, Visa, Inc.*

A

Yeah. That takes a variety of forms; obviously we want to grow our processing business around the world where we can or it makes sense in the market. How do we do it? Well, we promote processing in the value or the network to the clients in those markets and again, you look at things like tokenization, you look at things like being able to support card-on-file transactions or new transaction types like fast payments, those are all ways that we compete to win local processing.

In addition to that, there are obviously partnerships and/or work that we can do with things like the Developer platform that pull through demand, I guess, for the Visa network. And so it's a multi-faceted problem and it's different by market, but there's definitely an opportunity there for us that we see as being material. And again, I think some of these accretive things that we're building around just the transaction switching per se are the things that will create that demand.

Bryan C. Keane

*Analyst, Deutsche Bank Securities, Inc.*

Q

We can't have a technology discussion without bringing up the blockchain...

Sam Shrauger

*Senior Vice President-Digital Products, Visa, Inc.*

Yes.

A

Bryan C. Keane

*Analyst, Deutsche Bank Securities, Inc.*

...and I'd be curious to know how fast is it developing over last year or so and what are some of the use cases that Visa sees for potential for – with the blockchain?

Q

Sam Shrauger

*Senior Vice President-Digital Products, Visa, Inc.*

Yeah. It's interesting, I mean, I think the [ph] let's sort of (30:23) differentiate between bitcoin and the blockchain. I'll focus on the latter not the former; not a lot to say on that, but I think the technology of distributed ledgering has a lot of applications and I think there are – we've certainly done some demonstrations of things like originating a lease for an automobile from the automobile and having that posted to the public ledger, so that you can be underwritten for insurance. Is that the use case? No.

A

These are all things we're trying, but I think we're piloting into – we're testing, really just developing around the blockchain. But there's value to the distributed ledgering approach. I think one of the reasons that we've spent time on it and energy on it was so that we could learn more about where we thought that value was most implacable for us. Is it going to be the foundation of transaction processing for us? Probably not. I mean, just from a scalability standpoint, there are a lot of limitations there, but again we – we're testing and learning which is why we do partner with companies or invest in companies in that space.

Bryan C. Keane

*Analyst, Deutsche Bank Securities, Inc.*

So we talked a lot – about a lot of different initiatives and things. I guess I'd be curious on which one of these things, areas do you focus the most attention on, you know, in your day-to-day job?

Q

Sam Shrauger

*Senior Vice President-Digital Products, Visa, Inc.*

Yeah. It's a good question. The Token Service global rollout is definitely a big priority for us, and for me, personally. Again, that's just a matter of continuing to execute I think on a playbook that we've gotten nailed down pretty well, but there are lot more countries we need to be live in. So that's a big one.

A

Visa Direct is obviously another big one. There's just so much to do there. There's so much opportunity there and there's the work that we need to do to lay the foundation to let that opportunity flourish. And again, this takes different forms depending on which market we're talking about, but that's a essential network capability that just like the transaction processing that we do via card and pull payments, as we would call them, as opposed to push payments. We have to do that same market development, so that's a big area of focus as well.

And then we have a lot of evolution that we are doing in our risk modeling and our authentication capabilities and just a lot of accretion that we can do and above and beyond tokenization to securing an authentication – securing and authenticating transactions. And so, that's another big priority just because the world is changing fast and there's a lot that we can do as a company to help our issuers and the payment system in general, continue to keep up with the demands on security.

And then, the last piece is probably work that we're doing in Europe; I mean, we obviously have a network migration going on there and there's – we have a good plan for it and a good playbook for it, but it takes time and energy. And so, that would be, I think, the other big area.

Bryan C. Keane

*Analyst, Deutsche Bank Securities, Inc.*

Q

Just a follow-up on that last one; is it difficult to coordinate and get on the same page with Visa Europe and get on one platform, and how has that process gone so far?

Sam Shrauger

*Senior Vice President-Digital Products, Visa, Inc.*

A

No, we have a good idea of how that network migration is going to take place; we have a good idea, we have a good plan and a lot of good engineers and others that are executing against it. I think there's an opportunity there for us to bring some new services into that market as we get the networks integrated. But the migration itself – we've done things like this before and it's, again, not to trivialize it or to say it isn't complex, but from an execution standpoint, I think we've got the right people and the right plan.

Bryan C. Keane

*Analyst, Deutsche Bank Securities, Inc.*

Okay. With that, Sam, we'll keep it there. Thanks so much for being here.

Sam Shrauger

*Senior Vice President-Digital Products, Visa, Inc.*

Thank you.

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