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Visa, Inc. (V)

Goldman Sachs Technology and Internet Conference

# CORPORATE PARTICIPANTS

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President

# OTHER PARTICIPANTS

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Goldman Sachs & Co.

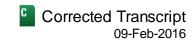
# MANAGEMENT DISCUSSION SECTION

## James Schneider

Goldman Sachs & Co.

Okay. Good afternoon, everybody. Welcome to the Visa Presentation at the Goldman Sachs Technology and Internet Conference. My name is Jim Schneider; I'm the payments analyst here at Goldman Sachs. We're very pleased to have Visa CFO, Vasant Prabhu, with us today. Thanks for being with us here today.

Thanks. Vasant, in Visa's position, you probably have a better real-time pulse – feel on the pulse of the consumer globally than almost any other company I can think of and I think that your earnings call a couple of weeks ago really threw out some comments that, I think, were very closely watched by the market and by investors.



# QUESTION AND ANSWER SECTION

## James Schneider

Goldman Sachs & Co.

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So, can you may be start off by telling us – kind of walk us through from the U.S. to other regions of the world, tell us kind of what you're seeing in terms of incremental strength, incremental weakness, and anything that would point us to some events that were either having an economic shaky time or not.

### Vasant M. Prabhu

Chief Financial Officer & Executive Vice President



Right. And we talked about some of this on our call. So, two things to sort of frame it. If you look at our payment volume in the U.S., which is indicative of U.S. sort of consumer spending, if you adjust for some conversions that we've had and you adjust for gas prices, they've been very steady for several quarters now in that double-digit range. So, there has really been no change as of the last time we talked to all of you a couple of weeks ago in U.S. consumer spending.

Now, as we go forward, of course, the impact of gas becomes a little less of a drag. It is still a drag, because gas prices are still lower than where they were last year. And then, in terms of whether the gas spending is going into other discretionary spending, the evidence on that has been spotty, and we've told you about that in the past. We still think some of it is going to savings and at least our most recent sort of consumer pulse tells us that consumers are now beginning to believe that these gas prices could stay low for longer, which would suggest that they may feel better about spending some of those savings.

So, could what's going on around the world affect the U.S. economy? I think, as you heard us say on the last call, we have not seen any evidence of that at that point. Globally, just looking at the same metric, payment volume, if you look at in constant currency, they were up 14%. So, that was still, in our view, very healthy. It was down about a point from the prior quarter. Of course, if you adjust for exchange rates, it was zero. So, it tells you how significant the impact of the strong dollar has been.

So, if you dig below the surface on that, I think there are two big things that are evident. One has been happening more recently and that is oil-linked economies, we're seeing definitely a meaningful slowdown in terms of commerce out of and within oil-linked economies, whether those are the Middle Eastern oil-linked economies or Nigeria or Venezuela, across the board, not surprising.

And then, we had some extraordinary commerce coming out of China, our so-called – what we call issued volumes out of China were very healthy if you went back four or five quarters. And then, right after the stock market wobble in the fall of last year, I think we told you we were starting to see some slowdown. And then the yuan had a wobble. So, there's been a steady decline in commerce out of China.

And you can also see the impact of that in two other places. You can see the impact of what appears to be a slowdown in China, at least commerce out of China in China-linked economies. So, whether it's Brazil or other commodity economies across Africa, Australia, et cetera. And the way that affects us is travel or commerce out of China was very beneficial to the U.S. because China is the second largest source of commerce into the U.S. as it relates to consumer expenditures after Canada. And as you can see, with Canada doing what it's doing currencywise and commerce out of China slowing down, our U.S. -acquired business has been under pressure for quite a while and that's a fairly large business.

So, if you look at it, there's clearly evidence of stress in the economy outside the U.S. in these two kinds of drivers; one is China-linked, the other is oil-linked. Beyond that, I don't think we would tell you anything that you wouldn't see yourselves from all the other data you look at.

James Schneider

Goldman Sachs & Co.

Fair enough. And then, I guess, the one fear on all investors' minds right now is potential for U.S. recession. You said you haven't seen it in any of the volumes yet. Are there any things, have you looked at past downturns, any telltale signs you look towards to say, hey, that we have a problem or that there's certain signposts that are leading indicators of an issue?

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President

Well, I think I'd be speculating as much as any body else. But you've got sort of two dimensions here. You've got the, let's call it, the high end of the market and the middle of the market. As long as jobs and employment are looking good, that segment of the market, especially with lower gas prices, should hold up okay would be our view.

At the high end, which has been powering a lot of growth and consumption in the U.S. in the past several years, you have to see whether the impact on asset values has any impact. They don't really change their spending behavior based on gas prices, but they might based on asset prices. Hard to know, too early to tell, but we'll have to wait and see.

James Schneider

Goldman Sachs & Co.

Yeah. That's helpful color. May be shifting gears a little bit towards the topic we've seem to have been talking about for the last seven years, which is mobile payments, for a second. I want to spend a little time on that because we've seen a ton of developments over the past 18 months with the launch of Apple Pay, Samsung Pay, Android Pay, and now we've got Chase Pay and Walmart Pay.

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President

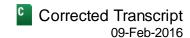
Yeah.

James Schneider

Goldman Sachs & Co.

All these pays. So, from one perspective, I think it's fair to say that all these announcements are really quite positive for you, because they reinforce your position as kind of the central player in the ecosystem, because you're providing tokenization technology to a lot of them. But now these services have been in the market for a while, there's really two concerns that I hear a lot from investors. One is around adoption rates and one is around kind of consumer confusion.

So I was wondering if you can maybe kind of address the first one first, which is adoption. 18 months in the market, some estimates suggest there's only 5 million users in Apple Pay today. So, what do you think it's going to take to get that going? Is it a merchant side problem? Is it a consumer side problem or some combination?



#### Vasant M. Prabhu

Chief Financial Officer & Executive Vice President

Yeah. Well, I think in that respect, this should not be a surprise, because when you're trying to create a payment system, you always have a chicken and egg problem, right? You have — if you don't have points of acceptance, then you don't have people who feel comfortable using it. And then points of acceptance won't accept things unless there's a broad enough base of users. So you've really got a chicken and egg problem.

And so it's no surprise that Apple Pay is dealing with that. So there's nothing about it that says that that's a problem. It's a natural state of things. You have to get to a point where you're beginning to build momentum and get to escape velocity or whatever. On that front, Apple Pay, you've got similar issues. People sign up for Apple Pay and then realize that it is not accepted just about everywhere, so they have to get used to not just using Apple Pay but the traditional swipe.

And then they may sign up for Apple Pay and after the novelty wears off, decide, well, if I'm not quite sure where I can use this, is it easier to reach for the card? So you've got a lot of that going on until some mode of payment settles in as a habit. And then you look at the alternatives that have now -are now available. They're all approaching it with different angles. So Samsung, clearly, has tried to find a way to overcome the need for changes of the terminal and try to come up with a service that is usable more broadly faster.

Android Pay certainly creates another operating system. And Chase Pay is approaching it from a very different angle altogether. I think the idea of all these alternatives is not surprising. It is something you would expect when a new technology is in the process of being developed and adopted. It is not atypical to have many versions of it. And over time, there's more clarity around which one becomes the standard or multiple versions can live side by side. I think we're in such early days on this that it's hard to predict exactly how it's going to play out.

Our goal, really, remains the same thing. Our goal has always been – commerce is changing quite dramatically. It used to be that you walked around the store and went out to a checkout lane and you paid for it. Now, you can do it anywhere, everywhere. And our goal has always been everywhere you want to be. So, we have to be always for frictionless payment and, what I like to say, the friendliest sales around.

So, as you can see what we've done with everyone of them, is to be as easy to work with as we could be and make our rail the most frictionless, the most cost effective, the most reliable, the most secure, and most ubiquitous set of rails to ride, so that none of them feels the need to find another set of rails. So, I think this is the natural sort of state of development of any new approach to things.

## James Schneider

Goldman Sachs & Co.

Yeah. Do you think there is a – clearly, it's going to take some time to get things rolling, but do you think there's a danger that with all this kind of confluence of pays that there is kind of a consumer confusion element which kind of sets in and, actually, ultimately derails the trend [ph] so as it may be (11:35)?

## Vasant M. Prabhu

Chief Financial Officer & Executive Vice President

Yeah. And it's not a question so much of derailing the trend. But there's not just consumer confusion, there's merchant confusion, right? So, merchants themselves have to figure out, okay, what do I want to enable? And merchants, whether it's on mobile, on a desktop or at the store, don't want the payment experience to slow things down, right? They don't want it to be a reason for an unsatisfactory consumer experience or to lose a sale.

And so, yes, to some degree, it causes merchants also to pause to say, maybe I should wait and see how this pans out. So, there is a risk of that. And certainly, on the consumer side, there is also a risk that there's some confusion and it might cause this to perhaps slow things down a bit, hard to know. On the other hand though, when Samsung comes in and enables a way to pay that could be faster to roll out, that may help.

So, it's hard to say it's going to hurt it in any way. I think it's very healthy to have a variety of different approaches because no one knows which one is going to be best. Our job should be to ensure that we are the best rail to enable them all. We shouldn't be thinking winners and losers. Our job should be to be the network that is the best network for any one of these alternatives to work with.

James Schneider

Goldman Sachs & Co.

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That's helpful. I want to may be come back to this stuffagain in a minute, but I do want to talk about — since you talked about merchants and talk about co-brands as well, because I think that one thing that's on a lot of investors' minds now is just kind of the string of announcements we've had over the past 12 months, whether that's the Costco portfolio went from Amex or the announcement on USAA or the announcement that your cards will now be tested in Sam's Club, all these things.

So, I guess the question is really, what's changed in the marketplace to kind of give you such a run of large deals beyond—is it in addition to price, what's changed about your product offering, I guess, relative to competitors and, specifically, have your data analytics offering kind of played a role in these deals?

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President



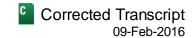
Sure. When people make co-brand choices, it's a range of things they make their choices based on. One of the things we've heard Charlie say for several years now ever since he became CEO was that Visa had to be much more merchant friendly and get much closer to merchants. And there's been a concerted effort on that part, because merchants are part of the four-party model as important as every other element in the model. And so, there's been a significant focus within the company in trying to understand what merchants really want and what can grow their business.

So, I would say, there's been quite a bit of investment in building our relationship with merchants and to better understand how we can grow their business. I think that has been one factor that's helped, because when merchants make co-brand decisions, I would argue that the single most important thing they're worried about is how can the co-brand help them grow their business. That's the primary reason they have a co-brand. I used to be at Starwood, and we had the Starwood Preferred Guest Card, happened to be with perhaps the wrong net work at that time. But our primary focus was how will that card help us grow our business.

So, that's really criteria number one. And that's where, I think, two or three things have helped us. One, the Visa brand; I don't think you can underestimate the power of the Visa brand and the way the Visa brand resonates with millennials and I think had a big thing — it was a big factor in Costco's decision. I think they were persuaded that the kinds of people they wanted to build in their membership base are the younger families because they're the ones — it's not empty nesters, its families that are growing, because that's where the big consumption is. And the Visa brand, based on our research and I would assume theirs, resonated best with the group that Costco would like as their members. Again, you should get this from them.

So, there's the brand. And then, as you said earlier, there's a lot of change going on. And merchants are figuring out that payments are an integral part of how to adapt to this change. As you know, it's no longer promoting the

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sale at the point of sale in the store; it is enabling it on mobile devices and every connected device in the future. And we've spent a lot of time coming up with ways to enable it, coming up with ways to think about it.

If you look at Visa Checkout, you may have heard the statistics we just talked about. And based on an independent comScore survey, Visa Checkout has, if I remember right, an 80%-plus rate where people go and complete the sale, which is drastically higher than alternatives and drastically higher than, let's call it, a plain vanilla website.

So when merchants can see the kinds of things we can do to help them think through how to make payments frictionless in the new world, I think that helps them a lot. I think they find that a partnership with Visa can really help them grow their business. And, of course, you have to be competitive on price.

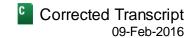
James Schneider Goldman Sachs & Co. Yeah. I'm wondering if you could maybe talk about an announcement you made a couple of weeks ago, the Visa Vasant M. Prabhu Chief Financial Officer & Executive Vice President Right. James Schneider Goldman Sachs & Co. As I understand, it's kind of a platform where retailers can offer rewards to Visa cardholders and they can kind of get that automatically when they complete their purchases. So I think the one that was cited was a partnership with, people go to Shake Shack and they get discount on their Uber ride. Vasant M. Prabhu Chief Financial Officer & Executive Vice President That's right. James Schneider Goldman Sachs & Co. Can you kind of give us the broad outlines of what the idea of this commerce network is and where you want to take it? Vasant M. Prabhu

Yeah. I think it's very exciting because essentially what it does is it allows the ability to cross promote across merchants, to allow merchants to deliver their own kinds of offers, and to do it in as frictionless a way as possible. Many, many years ago, I used to be CFO of a retailer, and this was when we were just moving off the old supermarket circulars and all that into the space where some of this could be delivered as web coupons, but you still had to like print them out and take them to the store. And then they got to the point where they could be delivered on your loyalty cards and all that. Now, we're getting to the point where we can make it even more frictionless, right?

So we have something going on with Uber, which was discussed when we talked about Visa Commerce Network. You could be going from point A to point Bin a Uber car, and on your way there, based on our knowledge of

Chief Financial Officer & Executive Vice President

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location, et cetera, with an arrangement that Uber and another retailer have come together with, we can deliver you offer on your smartphone while you're in the car that says when you get to the destination, retailer X, which is right there, will offer you 10% off for dinner.

So you can walk in, buy your dinner, get the discount right there on your Visa card. You need nothing else. All you had to do was say accept on the offer when you got it. And then when you shop there, that retailer would give you another offer on your way out saying, thank you, you get \$5 off your next Uber ride. And this kind of ability, most retailers are able to promote within their own business, this ability to link retailers and allow them to cross promote. When you do 100 billion transactions, your ability then to enable things to happen between merchants, we think, is very powerful. And then to allow that to be redeemed and delivered in a frictionless way, we think, really allows a capability that has not existed for a long time.

James Schneider

Goldman Sachs & Co.

And it's interesting, I think, in some ways to kind of talk to their potential reinforcement mechanism for mobile payments. But on another sense may be talk about for retailers and merchants, what do they get out of it when you kind of go approach them saying, you should participate in the commerce network, do they get user data, consumer data? Do they get a break on fees? How do we think about their – what's in it for them?

Vasant M. Prabhu

Chief Financial Officer & Executive Vice President

Yeah. It's really fairly straightforward. I mean our goal is to make the Visa rail, the best rails to ride on. So we can be the rail that allow them to do these kinds of things. It brings us more transactions on our rails, on our network. So that's a benefit to us. The benefit to them is that it allows them to promote in a way that is not quite possible doing it on their own.

So, in this example I gave you, let's say the retailer, in this case is Peet's Coffee. For them to get access to that Uber rider who Uber happens to know is going to a location very close to that Peet's Coffee, it's not easy for them to get that. But we can connect the two. We can connect the dots on those and allow each party to do something that they could not do on their own and deliver a value to you as a consumer that grows your loyalty to both brands and ensures that both brands have a desire to then send the transaction through Visa because we are enabling it.

James Schneider

Goldman Sachs & Co.

Yeah. That's very interesting. I'd love to maybe shift a little bit to online and come back to Visa Checkout, which is something you mentioned earlier. May be talk about, I think, people think that Pay Pal has been the first one to kind of do this, but Visa Checkout has done some good market traction.

I think you talked about 10 million users or so signed up to-date. Can you maybe talk about first of all what the value proposition is for someone to integrate Visa Checkout? What kind of improvement in kind of checkout rates they've seen in merchants that have signed up? And then, I guess, talk about again a question which is on everybody's mind is to what extent do you see Pay Pal as an increasingly direct competitor to Visa?

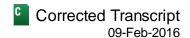
Vasant M. Prabhu

Chief Financial Officer & Executive Vice President

Well, I mean, Pay Pal has been around a long time, and so nothing really different on that front. But I think what Visa Checkout does is make that mobile or e-commerce payment even more frictionless. Because, first of all you

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should know that Visa Checkout allows you to use any network you want. But what we hope what the Visa Checkout branding does is give you that familiarity, security, the stamp of reliability, and then the fact that the experience is very simple, one click, makes that sale even more frictionless than it might have been with alternatives you had available. And that's what we see because the completion rates when people use Visa Checkout are so much higher than the alternatives. So we think that's working.

The other thing we've done is in addition to making it a very simple and easy experience for the consumer, we made it very easy for merchants to put it up on their mobile sites or their desktop sites and so on, so that's it's very, very easy to integrate, doesn't cost much and it's quick.

So, when you put it all together, we see this now really — and like everything else, we had a chicken and egg problem here too, which is merchants had to have a reason to have it. They had other alternatives they were offering people. We had to have — we had to give you as a cardholder a reason to enroll in it, and that takes some time. But given that we've only been doing this for the last 12 months to 18 months, the fact that we are at more than 10 million enrollees, that we are at as many merchants as we are today, it's really now beginning to sort of take on, as I said earlier, get to that escape velocity where, as Charlie said on the call, we get merchants now calling us saying, I need to get it.

So you want to get to the point where Visa is today in other forms of payment which is merchants want it because it's such a large base of users, and cardholders love it because it has 40 million points of acceptance. So we think we're getting to the point where it's self-sustaining.

## James Schneider

Goldman Sachs & Co.

That's helpful. And then I guess may be just kind of following up on that question, I mentioned PayPal before, I guess to one extent they're a very good customer of yours because they run a lot of volume through Visa. In a certain other sense, there are certain ways that they go kind of around the network where they engage other things. So kind of how do you view that relationship evolving and kind of do you think of it any differently than you might have [ph] a couple (25:42) years ago?

#### Vasant M. Prabhu

Chief Financial Officer & Executive Vice President

No. No. Look, I think, we do business with – the heart of Visa in addition to all the things we talked about is we have a set of rules, right? I mean, everybody who plays in the Visa system, whether it's a merchant or an issuer or an acquirer, everybody plays by a set of rules, which is why the network works. If we didn't have rules, then the whole thing wouldn't work.

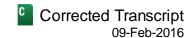
And Pay Pal, when they ride our rails, they should play by the same rules. And it's really nothing more than that. And I don't think it's anything that is particularly extraordinary or anything that isn't something that will be sorted out. So there's really not a whole lot different.

## James Schneider

Goldman Sachs & Co.

Okay. Fair enough. I'd like to ask one more question before I open up to the audience to see if there's any, but I want to ask you about Visa Europe because I think...

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### Vasant M. Prabhu

Chief Financial Officer & Executive Vice President

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Sure.

## James Schneider

Goldman Sachs & Co.

...it's kind of a record that we actually got half an hour into this, I haven't talked about it yet. So [ph] is landmark (26:45) transaction – I guess, first of all, why do you think it came together now? And, I guess, if you look over the next 5 years to 10 years, kind of, how do you think the combination of regulatory changes and other changes that are going on in Europe are going to kind of stimulate the growth in electronic transactions for Europe, which has kind of been a bit of a laggard and particularly in light of the fact that Visa Europe, I think, reported over the last fiscal year about 20% revenue growth, which I think people were surprised at.

### Vasant M. Prabhu

Chief Financial Officer & Executive Vice President

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Yeah. In terms of – there were several questions there. I'll try to answer as many of those as I can. Yeah. In terms of why it came together now, I mean, look, it takes for any transaction to happen it takes a willing seller and a willing buyer and a set of circumstances around changes going on in Europe, all the change in technology, the difficulty an independent entity like Visa Europe might have in staying up versus the resources Global Visa can bring to it. I think the owners of Visa Europe who are member banks decided that they would be better off in the long run if they did this now, and we were able to structure a transaction that made it work for all parties.

In terms of how things might evolve in Europe. Clearly, Europe has its own unique aspects, there's certainly regulation there. We've seen that [ph] in changed (28:06) regulation. But with us in the market now, and our needed focus on bringing all the capabilities we have to the European market should help the market. The fact that there are now all commercially oriented players in the market should help the market. We have to see how the regulation changes the structure of the market overtime. It's too early to tell. But we're very excited about the fact that we finally brought the Visa brand under one ownership umbrella. We're delighted that Visa, Inc. shareholders now have access to the European territory. Of course, all this will all happen once the deal closes. As we said on the call, we still have regulatory approval. And then once — assuming that all comes through, then we can move ahead with integration and so on.

#### James Schneider

Goldman Sachs & Co.



Yeah. We'll see if there's any questions from the audience before, unless I-I've got a lot more where that came from. There's one right here. Wait for the mic, please.



Hi. Just – hello, two questions. One, China, could you just update us on when we could expect like a timeline of some sort of application filed or? I know you're in the process of it, but just timing? And the second, could you just talk about the cross-border trends? You noted the impact of oil-linked economies, or FX. How much of this slowdown sequentially over the quarters is more cyclical versus maybe structural in nature that we should expect to slow our rate of growth in cross border? Thank you.

### Vasant M. Prabhu

Chief Financial Officer & Executive Vice President

China, not a whole lot new to report. We told you where we were on the call. We're still awaiting the regulations to be issued. In the meantime, we're moving full-steam ahead with the preparations to be ready. And we're doing all the homework on our side to be ready to run as fast as we can once we know we have a license and we know what the rules are. Beyond that, really not a whole lot of new news on that front.

In terms of cross-border trends, if I had to tell you my own views of it, they're cyclical trends. They're not secular trends. We've seen this before. I spend a long time in the hotel business, and we do see similar trends and it is always cyclical.

The secular trend that is dominant is the growing wealth in markets around the world, and I don't think that trend changes. And that has promoted cross-border travel. And now we're seeing in this — in our business, something in addition to cross-border travel that's driving cross-border is cross-border commerce. Right? People sitting in their homes in Brazil or France and buying anywhere in the world they want, facilitated because of Visa and its network.

So I see these as - I see the secular trend here as nothing but up. And what we're seeing today is a combination of currency shifts and some short term impacts of what's happening with oil or what's going on in China. That would be my view of it.

## James Schneider

Goldman Sachs & Co.

May be one last one if there is? Sir, over there?

Thanks. I was wondering if you could comment on the role that Visa is going to have in cross border commerce. So are you going to enable buyers and sellers to connect and provide the currency arbitrage and so on? Are you going to be a facilitator of people moving product, for example, consumers moving products from China to the U.S. under these new regulations and so on?

### Vasant M. Prabhu

Chief Financial Officer & Executive Vice President

Yeah, I couldn't hear everything you said.

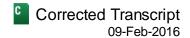
So regulations have changed. Consumers can now import directly, I think, \$600 or \$800 a week, tax and tariff free. [indiscernible] (32:08)

## Vasant M. Prabhu

Chief Financial Officer & Executive Vice President

[indiscernible] (32:09) question, meaning, will we get into some kind of customers brokerage business, those kinds of things? No. I mean, I don't mean that. I mean we're facilitating cross-border commerce. Tokenization will help it a lot because it will make many of these transactions far more secure than they are viewed to be today.

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Denial rates on cross-border purchases can often be quite high because of lack of comfort either on the part of the issuer or the merchant. As we tokenize, we will raise the level of security available that should substantially increase the – and reduce the denial rates. That should be a major impetus to cross-border growth. So that could be significant as tokenization takes off. I don't know if I answered your question. I'm sorry about that.

## James Schneider

Goldman Sachs & Co.

I think we're actually out of time, so we will take it offline. But Vasant, thanks very much for being here.

## Vasant M. Prabhu

Chief Financial Officer & Executive Vice President

Thank you.

# James Schneider

Goldman Sachs & Co.

Thank you.

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