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# Nielsen Holdings NV (NLSN)

Robert W. Baird Business Solutions Conference

## CORPORATE PARTICIPANTS

Jamere Jackson  
*Chief Financial Officer*

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## OTHER PARTICIPANTS

Jeff P. Meuler  
*Robert W. Baird & Co., Inc. (Broker)*

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## MANAGEMENT DISCUSSION SECTION

Jeff P. Meuler  
*Robert W. Baird & Co., Inc. (Broker)*

Have a lot to cover, so we're going to get going. I'm Jeff Meuler, Baird's Information and Education Solutions Analyst. My pleasure to introduce Nielsen as our next presenting company in this room. Nielsen is the global leader in consumer measurement, including both media consumption and what consumers buy, with a focus on consumer packaged goods, purchases on a global basis. They have a long track record of consistent growth and an increased coverage in the buy business, and the coverage in media consumption across an increasing number of mediums and platforms could position Nielsen for accelerating growth. I think one of the craziest stats that I've heard is that Americans cumulatively spend more time watching video than they do working, but Nielsen measures all of that and more.

So, with me from the company is Jamere Jackson, the CFO, who exactly one year ago today was announced as CFO. So, congratulations. Jamere spent 10 years previously in senior finance roles at GE. Prior to GE, he was in various accounting and finance roles at Pepsi and P&G, who are the consumer packaged goods world that they measure. And then, also with us from the company is Head of IR, Kate Vanek, in the front row, along with Kendra Kavanagh, who works with Kate.

So, I'm going to hand it over to Jamere for some brief overview of comments, and then we'll move on to Q&A in a fireside chat format. Jamere?

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Jamere Jackson  
*Chief Financial Officer*

Good afternoon. I'll hit the forward-looking statements, which is normally caged out, but I'll take caged out today, and then I'll jump right in. So, thanks for coming. Our business is really built on three strategic pillars: performance management, consumer focus and global presence. And I'll spend a little bit of time talking about each.

First is performance management. Fundamentally, our business does two things: we measure performance for our clients and we help our clients improve that performance.

First, let me talk about measurement. It's the core of what we do. It's roughly 80% of what we do inside the company. We provide independent, third party measurement. In the Watch business this is focused on ratings and in the Buy business this is focused on sales and market share data. We also do a number of things around analytics to help our clients improve their performance, and we bring the two data sets together because our analytics actually helps us to amplify our measurement business. It's the core of what we do.

The second element is consumer focus. We measure the consumer. What we don't do is we don't measure a particular screen or a particular device or a particular distribution channel. We measure the consumer. That has always been our focus inside the company, and we illustrate this in a couple of ways.

If you take a look at our Audience Measurement business, years ago we started in broadcast TV. And then cable came along and people actually believed that this would be a disruptor for the Nielsen business model, but we added that measurement capability. Satellite TV came along; we added that capability. Time shifting came along, and we added that capability. And in today's world it's mobile and online, and we're adding those capabilities as well. Our focus is around measuring the consumer and the total audience.

There's a parallel on the Buy side of the business as well, where we started in grocery. We then added mass merch. We added drugstores, club outlets, specialty retailers, and the next frontier there is e-commerce. And again, our strategy is to measure the consumer and the total audience and the total consumer, and we'll do that in both our Watch and our Buy business.

The last element is global presence. We're in over 100 countries; 90% of population and GDP coverage represented by those 100 countries, and no one else has this kind of global presence. It is a strength for our business and it is how we remain well-positioned to meet our client's needs now and into the future.

In addition to that, we have a compelling financial performance. This is a business that consistently delivers consistent, steady, mid-single digit revenue growth through the cycles, and it's been remarkably resilient. Last quarter, we announced our earnings. It was the 34th consecutive quarter of constant currency revenue growth inside our business, remarkably resilient through the cycles.

Margin expansion. So, we've delivered 40 basis points to 60 basis points of margin expansion through the cycles. We have a powerful, syndicated business model that enables us to get operating leverage, and we've done this while we've invested in our key growth initiatives, like the emerging markets. Powerful free cash flow, and this has become an increasing part of the Nielsen story because this underpins the last element, which is a balanced capital allocation approach. This powerful free cash flow performance enables us to grow our business and return cash to shareholders in an investor-friendly way.

So, we have a business that is consistent, steady, mid-single digit grower, margin expansion, powerful free cash flow, and a balanced capital allocation approach and a strong track record of delivering.

So, spend a little bit of time with you, Jeff. Thanks.

## QUESTION AND ANSWER SECTION

Jeff P. Meuler

*Robert W. Baird & Co., Inc. (Broker)*

Q

All right. Thank you. And just while he's walking over, our audience, you can feel free to raise your hands to ask questions or you can also send them in to our e-mail account, which for this session is [ph] session1@rwbaird.com (5:45). It's also on the tables.

I'll kick it off. Jamere, can you first start off by talking about trends in video viewership? And the good thing is Nielsen is such a strong brand name that everybody knows it. The bad thing is sometimes people confuse Nielsen ratings with what Nielsen actually is. So but if you could just start out talking about the trends in video viewership rating, how Nielsen ratings play into that, and then eventually I want to get into all of the other things that you can measure and do measure, but maybe are not included in the formal ratings.

Jamere Jackson

*Chief Financial Officer*

A

Yeah, so what we've seen is media consumption is actually growing. However, the largest part of that, which is tied to the tethered television, has actually declined slightly, and we call this phenomena media fragmentation. In other words, consumers have a lot more choice about the devices that they consume content over, whether it's a smartphone or a laptop or a PC. And so this dynamic of media fragmentation is happening and it's impacted our clients as they've looked at what's happening from a ratings standpoint. And oftentimes you'll hear our clients refer to things that are in the Nielsen rating.

Well, we actually measure a lot more things than are actually in the Nielsen rating, the traditional Nielsen rating, if you will, which is typically when you hear our clients talk about the Nielsen ratings, they're talking about one element of what we measure, which is what we call the C3 rating. But we actually measure much more than that, and we've continued to add more capability over time, because again, our strategy is to measure the consumer. And so as audiences fragment across different devices, different platforms, whether it's time shifted or live, we've continued to add capability that will be able to measure that, and that's important for our clients and it's important for the industry.

Jeff P. Meuler

*Robert W. Baird & Co., Inc. (Broker)*

Q

Okay. And how soon do you think the industry will start to adopt some of that as – within the primary currency, and then it seems like Nielsen is starting to take a little bit more of a proactive approach to helping lead the industry in that direction instead of just accommodate it, if you can talk about that?

Jamere Jackson

*Chief Financial Officer*

A

Yeah, we have a responsibility to help drive the conversation and provide reasonable assurance that we have the management capability to be able to measure each of those slices of the market. We call this the total audience approach. So, the combination of what you've historically seen in the linear TV world, but it's also adding capabilities in over the top, and so adding capabilities with PCs, it's adding mobile capability, and bringing all of that together as an independent third-party measurement of the total audience. And that's what we're focused on delivering this year.

We're driving the conversations. You know, back in 2007 is when commercial-plus-three or C3 was brought to the marketplace. It took well over a year for the industry to align on those dynamics. We were a central piece of the conversation. We'll be a central piece of the conversation this time. But the reality is as audiences continue to fragment, there is a compelling need in the marketplace to have a much broader view than just the C3 ratings, and we're at the heart of that conversation and we're at the heart of the measurement there.

Jeff P. Meuler

*Robert W. Baird & Co., Inc. (Broker)*

Q

And C3 means the people that are watching it live or in the following three days, and even more particular, it's watching that individual commercial within that time band, correct?

Jamere Jackson

*Chief Financial Officer*

A

That's right. And as we talk about total audience, we talk about that measurement along with being able to measure all of the digital content, being able to measure slices in the over the top or video on demand world, whether it's advertising or subscription based, bringing that all together so that there is a view of where the audience is, what consumers are consuming, and it gives the market an opportunity to buy and sell on those metrics.

Jeff P. Meuler

*Robert W. Baird & Co., Inc. (Broker)*

Q

Okay. So, you've developed capabilities far in excess of the current Nielsen rating. What are the gaps left that still need to be filled in around your total audience view?

Jamere Jackson

*Chief Financial Officer*

A

Yeah, so this year, we're working on two things. The first is digital content ratings, and we've talked about that last year in the partnership that we built with Adobe which enables us to provide digital content ratings across the market. Adobe is a fantastic partner. They basically have infrastructure in 75% of the web content, and so partnering with them as a way for us to accelerate our foray into digital content ratings was a real game-changer for us.

In addition, the Adobe Primetime player is the market leader in terms of video distribution capability over the web, and having our capabilities built inside the Adobe Primetime player along with having a digital content rating inside the Adobe analytics platform is a game-changer for us and really moves us down the cycle much faster. It takes a lot of the integration friction out. It's a key win for Adobe as well, because it takes measurement friction out for their clients. Their clients no longer have to go and reconcile metrics that they get in sort of the digital world with maybe metrics associated with a more TV-centric view. So we bring TV comparability and TV quality to those clients as well.

The second piece that we're working on is enhancing our capabilities in video on demand, both advertising – advertiser-based video on demand and subscription-based video on demand. We're doing a tremendous job of adding those slices, those – the capability for that fast-growing slice of the market. And you'll see us bring that to the market this year as well for our clients to help them understand the trade-offs between having their content in-house versus licensing it other places.

Jeff P. Meuler

*Robert W. Baird & Co., Inc. (Broker)*

Q

And when you look at an SVOD product, how important is it to have Netflix' cooperation in terms of data provision versus can you circumvent them and come up with a valuable solution for clients, even if you're not getting data directly from Netflix?

Jamere Jackson

*Chief Financial Officer*

A

Well it certainly would be a lot easier to have the cooperation, but we still have ways to measure. If it is content that we have seen inside Nielsen, our meters actually have the ability to either pick up the content from the watermark or pick up the audio signature so we can go back and figure out where that content originated by adding some technology to the meter. So not only do we know what was played but we can take the IP packets, if you will, and say, did it come from Netflix; did it come from Amazon Prime or some of those places? And these are all things that you have to do when you're trying to follow the consumer.

Jeff P. Meuler

*Robert W. Baird & Co., Inc. (Broker)*

Q

Okay. And then can you just talk about the core Watch measurement in terms of how it's done and the changes that are occurring? So, I think that you've said you're expanding the panel sizes; you're making more households electronic. Are there any other bigger changes in terms of how you capture information within the panel – and I know there's the whole panel-plus concept – but within the panel – and I've seen things at your Analyst Day where you have a camera that can actually tell how people are reacting, but obviously there's privacy concerns if you go too far. So, just if you could talk about how you're changing the panel piece?

Jamere Jackson

*Chief Financial Officer*

A

Yeah, so we continue to innovate in the panel space as well, and our team has done a fantastic job with the multi-generational product plan, and all the things that we've been working on from a technology standpoint, to make what we do from a panel measurement standpoint a lot more efficient.

Fundamentally though, what we see happening is that the future of measurement will be a combination of high-quality panels plus big data sets, and that's exactly how we measure in the digital world today. So, we have our high-quality Nielsen panel combined with a big data set like Facebook to help us find those audiences and bring that data back to clients to help them monetize. And we see that happening even in the linear TV world, where you can take set-top box data, which isn't, on a standalone basis, good for currency, but if you take that and combine that with high-quality panels, then you can have the best of both worlds. You can have the quality of the panels and the increased granularity with a big data set. And again, that's what's happening in the digital world, and we see the future of measurement being the same way in the linear TV world.

Jeff P. Meuler

*Robert W. Baird & Co., Inc. (Broker)*

Q

And what big data sets do you have? What would you consider? I think OCR, you already have Facebook; you have Experian. What's your thoughts on use of server log data, set-top box data, whatever else people come up with in the future?

Jamere Jackson  
*Chief Financial Officer*

A

Yeah, so again, our strategy is about measuring the consumer. So in the U.S., for example, we're able to use our panels plus the Facebook data set. They have 180 million registered users in that database that give us the ability to go do measurement that way. But if you go to a different geography, like China for example, you have to build a different set of partnerships. And there, we'll partner with Tencent to be able to do exactly what we've done with OCR in the U.S.

And so, the notion of what we have inside our own panels plus our ability to build partnerships is what enables this. We've worked with set-top box data for a number of years, particularly in our analytics products, and we've developed domain expertise in how to do the processing there. And so, over time, as we look to add more granularity to ratings, we feel very confident that we know how to integrate almost an infinite number of big data sets to inform measurement in the future.

Jeff P. Meuler  
*Robert W. Baird & Co., Inc. (Broker)*

Q

Okay. And I got a emailed question, and I know you typically don't call out competitors, but I'll read the question direct and you can respond as you see fit. But the question is, compare the Rentrak solution to the Nielsen -Adobe solution.

Jamere Jackson  
*Chief Financial Officer*

A

So, if you look at Rentrak today, with set-top box data, it is very good from an analytic standpoint, but what it's not is it is not currency grade. In other words, you don't have demographics associated with it. It's not representative of the population. But it's very good from an analytic standpoint, and you'll see many agencies and people that are in the reaction space, as we call it, use that data set to help them inform planning decisions and buying decisions in that capacity. But it's not currency grade data.

But in the future, as we talked about the future of measurement, you can actually take a big data set like set-top box data and combine it with our high-quality panels and enhance the measurement capability. So, not comparable in terms of one being currency versus one not being currency, but certainly a lot of usefulness and utility in having that data set.

Jeff P. Meuler  
*Robert W. Baird & Co., Inc. (Broker)*

Q

Okay. And then maybe if you could talk about the digital product, which I think you're still referring to as OCR. I know you change your acronyms from time-to-time, but talk about the digital product. I know it's early days, but what traction are you seeing with clients in the market? And then, you've thrown out some multi-year revenue targets, if you could just articulate those for people that may not be familiar?

Jamere Jackson  
*Chief Financial Officer*

A

Well, our goal is certainly to get you and others out of acronym hell at some point in the future. But our OCR product has had fantastic success over the last year or so. 19 of the top 25 advertisers endorse OCR, which is a huge win for us. We launched our mobile product in July of last year. We had 100 clients sign up; we have about 120 today. The adoption has been fantastic. The renewals, so, many of those early deals were actually short-term

deals. We've had great renewals; the pricing has been fantastic. So advertisers have spoken, and we've been executing in the marketplace and we feel very good about where we are today.

In terms of where we think the marketplace will go, we've talked publicly about measurement in the digital world being roughly 2% of the digital video spend. We think that based on what we see in the early days is going to hold up well, and if that market grows to \$18 billion or so, or \$15 billion by 2017, a 2% take means that this is potentially a \$300 million market.

Display is probably going to be less of a take there. You'll have a number of players in that space, and you won't always necessarily need TV quality, TV comparability in that space, so we think that piece of it is small.

So overall, we've quantified it as a \$500 million market opportunity, and it will be predicated on a few things. One is, we think in the video world, this ecosystem works best when there's one referee on the field. Today, there are more than – more than one. And in the Display world, there will be room for a number of people to play in that piece of the market, and – but we think there's a tremendous opportunity there for Nielsen as well, particularly as we get digital content ratings into the marketplace.

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**Jeff P. Meuler**

*Robert W. Baird & Co., Inc. (Broker)*

Q

Okay. And in the TV audience measurement business, there's always – not always – there's recently been a lot of talk about competition, and Nielsen has a very strong position in the market; there's a lot of I think barriers to entry. One thing that I think is telling, and I don't know how much you talk about it, but current contract negotiations, you sign long-term contracts with clients who are bringing a lot to the market. If I look at the contracts that have come up for renewal in the last year or so, what are you seeing for price lists relative to what you historically saw? Is there any sort of erosion there?

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**Jamere Jackson**

*Chief Financial Officer*

A

No, our pricing has been very strong. And listen, even though we have a very strong competitive position in the marketplace, the reality is when you have those negotiations, you have to earn price. In other words, when we sit down with our clients, we talk about the additional capabilities that we're bringing to the measurement space. Digital is a great example. If you look at the investments that we've made in the technology to measure digital audiences over the last few years or so, our clients all understand it; they've worked alongside us in many instances. And so, they understand the dynamics associated with those capabilities. And those are the kinds of discussions that you have when you're having pricing. And as long as we continue to execute and we continue to deliver, then our clients have historically paid us accordingly. And that's exactly the situation that we find today in the marketplace.

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**Jeff P. Meuler**

*Robert W. Baird & Co., Inc. (Broker)*

Q

Okay. And then we have a couple of questions from the app, and then I want to move on to your Buy business and not forget that big chunk of it. But here's the first one. Can you talk about the total audience measurement philosophy as it applies to audio? And for people that don't know, Nielsen acquired the leader in audio measurement, but it's predominantly terrestrial audio measurement, Arbitron, I think about five quarters ago now. So, any – what's the update on digital audio?

Jamere Jackson  
*Chief Financial Officer*

A

Yeah, so our – again, our strategy remains the same there, measuring the total audience. Today, we have a strong position in terrestrial radio, and the technology that we've built to do OCR, or Online Campaign Ratings, actually works in the digital or streaming world. And we're having very good discussions with the key players in the industry today, working with them to align around the metrics, align around how it will actually be reported. And, fingers crossed, we hope that by the end of the year that alignment is actually in place. We feel very good about the technology and our ability to go measure in that space, and we've made great progress there.

Jeff P. Meuler  
*Robert W. Baird & Co., Inc. (Broker)*

Q

Okay. And then another email question: it reads, how much bigger is total audience than C3? So, I'm assuming, how much of video viewership is captured by C3 today?

Jamere Jackson  
*Chief Financial Officer*

A

So again, television is still the most efficient way to reach large, unfragmented audiences, and so it's the lion's share today. But video is continuing to grow. We think that it will continue to grow over the next few years or so, because what you have – digital video – what you have in the digital world is the ability to be a lot more precise about the audiences that you're trying to reach.

And what we've done with our Online Campaign Ratings technology is we've built a way, based on our panels, based on the big data sets that we've added to that data, we've built a way to basically go validate that you've reached those audiences. And so, I would say digital has been the Wild West for a number of years, but having a player like Nielsen on the field with quality TV comparability is going to actually be – it will actually help the market accelerate there, because we'll provide the fidelity around the measurement that will provide comfort and assurance that people are getting the audiences that they're actually paying for.

Jeff P. Meuler  
*Robert W. Baird & Co., Inc. (Broker)*

Q

And then one more specific question: do you measure on Apple iPads?

Jamere Jackson  
*Chief Financial Officer*

A

Do we measure on Apple iPads?

Jeff P. Meuler  
*Robert W. Baird & Co., Inc. (Broker)*

Q

Consumption – I'm assuming, video consumption on Apple iPads?

Jamere Jackson  
*Chief Financial Officer*

A

So, if you have an app on your iPad, and our SDK is embedded inside that app, then indeed we can capture measurement associated with it.

Jeff P. Meuler

*Robert W. Baird & Co., Inc. (Broker)*

Q

Okay. Wanted to move on, then, to the Buy business. Developing markets, you saw some nice acceleration in the growth rate in 2014. What's driving that? Is it local clients? Is it the coverage investments that you've made? If you could just talk about that?

Jamere Jackson

*Chief Financial Officer*

A

We've invested pretty steadily in the emerging markets over the last few years or so, and it's starting to pay real dividends for us. We've invested through the cycles, in a very disciplined way, to expand coverage. And again, that goes back to our strategy as well about measuring the consumer. That expansion and coverage is not only for multinationals, but it's also for local and regional players in the marketplace.

And where you've seen fits and starts with multinationals, the local book of business in those emerging markets has been very strong, and in some cases growing 15% to 20% in terms of growth rates, and it's about a third of our emerging market business today. So, the emerging market business was growing 5%, 7%. We finished last year at 9.5%. The back half of the year was actually up double-digits, so a very good story for us from a growth standpoint.

Jeff P. Meuler

*Robert W. Baird & Co., Inc. (Broker)*

Q

Okay. And then, in the developed world, growth has been a little bit more tepid. And there's competition in some of those markets. There's a different market maturity, but you're also doing things like rolling out new platforms to hopefully offset that. So what needs to happen for the developed world to grow at a faster rate than very low-single digits?

Jamere Jackson

*Chief Financial Officer*

A

Well, two things. We've been winning in the developed world, and if you look at the roster of new client wins that we've had even through the tough cycle, we've been winning market share over the last few years or so.

I think a couple dynamics. One is, you've seen some pressure in certain categories where there are some secular changes in terms of consumer behavior. So you've seen certain categories – carbonated beverages, snack foods, cereals – that have had a little bit of a downdraft and as a result of that there have been some client tightening. I think the way out of that – and you're seeing our clients start to do that – is to innovate through that pressure, and it's happening.

Second dynamic is the consumer is getting better. If you look at, in the U.S. with the consumer, that is getting a lot healthier: you got low unemployment, you got low interest rates, very little inflation, gas prices are coming down. Consumer's getting a little better and so as a result of that you're starting to see the CPG clients be able to get price and that price is starting to stick. And so, when they get a little bit of a lift then they'll continue to invest in discretionary spend and that all spells good news for our business.

Jeff P. Meuler

*Robert W. Baird & Co., Inc. (Broker)*

Q

Okay. And then on the margin side you've been investing in coverage, coverage, coverage, and it seems like we're now maybe at a point of inflection. If you could just talk about the margin outlook, and is there any slowing in the pace of investment, or is this just harvesting the investments that have been made?

Jamere Jackson  
*Chief Financial Officer*

A

What you're seeing in the emerging markets is we invested pretty heavily over the last few years because we were vastly underpenetrated and we needed to play a little bit of catch-up. And now you'll see us as we invest going forward, because that's a little bit more in-line with sort of market growth and where we see the opportunities.

Some of those early investments are starting to scale, and as those investments start to scale, you have a nice pick-up from a margin standpoint. But we haven't slowed down in terms of our philosophy in investing in those emerging markets. We're going to continue to invest in a disciplined way through the cycles to expand coverage to follow consumers. And what you'll see is in some markets like China where urbanization, rising middle class, are all dynamics that are happening in those marketplaces, when the time is right for us to double-down on those investments, we're going to double-down on those investments and have a business that continues to grow into the future.

Jeff P. Meuler  
*Robert W. Baird & Co., Inc. (Broker)*

Q

Okay. Let me just pause to see if there's an audience question. Otherwise, you can't really talk about Nielsen without talking about dividends, and since you've delevered post the LBO, you're also freeing up some cash and are now starting to aggressively buy back stock. So if you could talk about the capital allocation philosophy of the company?

Jamere Jackson  
*Chief Financial Officer*

A

Yeah, so what we've said is we've got a growing free cash flow profile inside the company, up 24% on a compound average growth rate basis from 2009 to 2014, holding our leverage target somewhere in the three times area. What we said about capital allocation is we'll allocate roughly 45% of that free cash flow to the dividend, which we intend to grow in line with earnings. We'll have roughly 40% that we'll toggle between M&A and buy back opportunities, and the remainder to service the debt. This gives us tremendous flexibility to grow our business and to return cash back to shareholders in an investor-friendly way.

Jeff P. Meuler  
*Robert W. Baird & Co., Inc. (Broker)*

Q

Okay. And then I have one final question from the email, and then we'll call it a day. So the question is, competitive landscape in the Buy business, do you see a threat from IRI Group's partnership with Rentrak?

Jamere Jackson  
*Chief Financial Officer*

A

We're in 100 countries today. No one has our global footprint. The next nearest competitor is in maybe a dozen or so. And so, when a client is looking for a view of the world on the Buy side of the business – and this is one of the drivers for the client wins that I mentioned earlier – we are the – we're in a great position competitively. So, we've got some good competition in the marketplace today, but if we continue to execute on our strategy around coverage, adding the analytics capabilities, combining the datasets between our Watch and our Buy business, competitively, we'll be just fine.

Jeff P. Meuler  
*Robert W. Baird & Co., Inc. (Broker)*

All right. And I think we'll end it there. Please join me in thanking Jamere for his presentation. And Jamere, Kate, and Kendra will be available for a breakout session outside of this room.

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