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Eventbrite, Inc. (EB)

Q3 2018 Earnings Call

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Youssef Squali

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Scott William Devitt

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Cheryl and I will be your conference operator today. At this time, I would like to welcome everyone to the Eventbrite, Inc. Third Quarter 2018 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

Sarah Henderson, you may begin your conference.

Sarah Henderson

Senior Manager - Corporate Finance, Eventbrite, Inc.

Thank you, Cheryl. Good afternoon and welcome to the third quarter 2018 Eventbrite earning call. Prior to this call, we released a shareholder letter announcing our third quarter 2018 financial results and posted our shareholder letter to our website at investor.eventbrite.com.

Before we begin, I would like to remind you that during today's call, we will be making forward-looking statements regarding future events and financial performance, including providing net revenue and non-GAAP adjusted EBITDA guidance for the fourth quarter 2018. We caution that such statements reflect our best judgment as of today, November 12, based on factors that are currently known to us and that actual future events or results could differ materially due to several factors, many of which are beyond our control. For a more detailed discussion of the risks and uncertainties affecting our future results, we refer you to the section titled Forward-Looking Statements in our shareholder letter and the filings with the SEC.

We undertake no obligation to update any forward-looking statements made during this call to reflect events or circumstances after today or to reflect new information or the occurrence of unanticipated events except as

required by law. During this call, we will present adjusted EBITDA and free cash flow, both of which are non-GAAP financial measures. These non-GAAP financial measures are not prepared in accordance with GAAP and have limitations as analytical tools and you should not consider them in isolation or as substitute for analysis of our results of operations as reported under GAAP.

Reconciliation to the most directly comparable GAAP financial measures are available in our shareholder letter. We encourage you to read our shareholder letter as it contains important information about GAAP and non-GAAP results.

And now, I will turn the call over to Julia Hartz, Co-Founder and Chief Executive Officer. Julia?

Julia Hartz

Co-Founder, Chief Executive Officer & Director, Eventbrite, Inc.

Thank you, Sarah, and thank you all for joining us today. Since this is our first earnings call as a public company and given the Eventbrite story may be new to some of you, I wanted to provide some context before reviewing the third quarter results.

To start, our mission is to bring the world together through live experiences. We've built a robust enablement platform that empowers the growth of professional event creators around the world. Our platform reduces the friction and costs associated with event creation while increasing reach and ticket sales for creators. By reducing risk and complexity, we allow creators to focus their energy on producing compelling and successful events.

Our business model is powered by efficient creator acquisition and predictable revenue retention. We provide a self-service platform where more than 95% of creators have signed themselves up year-to-date. In our transactional business model, we charge a fair transaction fee on tickets sold, which aligns our interests with those of our creators. Simply put, we win when they win.

These creators run their businesses on Eventbrite, leading to strong revenue retention. The strength of our transactional business has enabled us to invest in additional growth initiatives like new country and category expansion, complementary solutions to our core ticketing offering, and opportunities arising from the large volume of consumers who interact with our platform. We've tapped into a large underserved global opportunity in the midmarket of live experiences and our goal is to help fuel this large and growing market.

The impact of Eventbrite is best described through our creators so I'd like to take a minute to highlight Desert Daze featured on the cover of our shareholder letter. Founder Phil Pirrone recently migrated his business from Ticketfly to Eventbrite and successfully hosted his 2018 festival on the platform. Since migrating, they have quickly integrated many Eventbrite features and partners including Affirm, a payment plan solution to help make experiences more accessible; SocialLadder, a promotional partner to help drive sales through influencers; and LeanTicket, which enables custom-printed tickets for their events.

Desert Daze also benefits from our distribution offerings like our native Facebook checkout and Instagram buy tickets integration. Creators like Phil and experiences like Desert Daze are examples of the many powerful events we serve that enabled us to deliver a strong third quarter.

In the third quarter, we processed over 23.9 million paid tickets and delivered over 45% year-over-year growth in revenue while continuing to make strategic investments to drive future growth. International markets contributed 27% of net revenue despite currency headwinds.

Beyond the third quarter, last week, we delivered Eventbrite Music, a new product to streamline and improve ticketing, marketing and operations for independent promoters, venues and festivals around the world. Built natively on our platform, Eventbrite Music was designed to give independent venues and festivals the tools and expertise they need to grow their businesses. The product also supports promoters and venue owners as they sell out their shows, build their brands, amplify their reach and deliver a great fan and artist experience.

Additionally, we integrated our events and buying experience with YouTube, adding to our growing portfolio of more than 50 distribution partners which includes Instagram, Spotify, Bandsintown, and more. We believe that our scale and robust self-service platform, coupled with our efficient sales efforts, will continue to drive strong growth globally. I would like to express my sincere gratitude toward our team, our investors, our shareholders, and especially the Eventbrite creators and consumers who make our vibrant community what it is every day.

With that, I will turn the call over to our CFO, Randy Befumo, to briefly discuss our financial results and outlook before turning to your questions. Randy?

Randy Befumo

Chief Financial Officer, Eventbrite, Inc.

Thank you, Julia. Full details of our results are available in our shareholder letter. In today's call, I will not repeat many of the numbers contained in that letter. Rather, as it relates to the third quarter, I plan to highlight the key aspects of our financial model, discuss a few critical results, and give you more color on our expectations for the fourth quarter. Unless otherwise noted, all comparisons will be on a year-over-year basis.

Net revenue grew to \$73.6 million in the third quarter, up 45%, reflecting strong growth on the Eventbrite platform. From a bottom line standpoint, we believe that the use of adjusted EBITDA and free cash flow is helpful to our investors as these are metrics used by management in assessing the health of our business and our operating performance.

Our third quarter adjusted EBITDA was \$11.2 million, up from \$1 million in the prior period. These results were impacted by some notable items in the third quarter including the release of reserves related to our sales tax liability and insurance recoveries from the second quarter's data security incident on the Ticketfly platform.

In the 12 months ended September 30, 2018, we reported negative \$6.2 million in free cash flow compared to a positive \$34.4 million in free cash flow in the prior period. Operating cash flow for the 12 months ended September 30 was positive \$6.1 million. Both of these results were impacted by two primary factors in the third quarter: the timing of the Ticketfly acquisition in the prior year and the release of tax reserves in the current period. Outside of anomalies like these, we expect to be able to drive meaningful growth in free cash flow while also growing our net revenue.

Finally, it is important to note that we had a material below-the-line charge related to debt extinguishment as we put in place our new credit facility. Investors should adjust for this cost when analyzing net income and earnings per share for the third quarter. Our third quarter results demonstrate Eventbrite's ability to successfully expand that revenue, drive adjusted EBITDA, and achieve strategic milestones all while investing back into the business for long-term growth.

Looking forward to the fourth quarter, we expect net revenue in the range of \$72 million to \$74 million, representing 16.4% year-over-year growth at the midpoint. This net revenue guidance includes the full effect of any anticipated migration loss in the period. As noted in the letter, we strive to maintain the majority of revenue when we acquire a business, but in our move to one platform, we expect to experience revenue loss in the

migration process. This will be a factor in the fourth quarter. We expect adjusted EBITDA to be in a range of \$6.5 million to \$8.5 million, representing a 10.2% adjusted EBITDA margin at the midpoint. Our focus continues to be to reinvest in the business to drive long-term growth.

Three final notes for those building models. First, this guidance assumes normal seasonal trends which have us build cash in the first and third quarters and pay out creators in the second and fourth quarters. Second, we acquired Ticketfly in the third quarter of last year and recorded a net revenue contribution for the majority of September. This anniversary will impact our year-over-year comparisons in the fourth quarter. Third, as of the end of the quarter, our fully diluted share count was 91.5 million shares. The substantially lower common share count used in our EPS calculations in the third quarter relates to us only being public for 10 days out of the quarter as prior to the IPO, most equity was preferred. Had we been public for the entire period, the net loss per share would have been different.

With that, we will open the call to questions. Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] The first question comes from the line of Mark Mahaney of RBC. Please go ahead. Your line is open.

Mark Mahaney
Analyst, RBC Capital Markets LLC

Q

Okay. Thank you. Two questions, please. First, Eventbrite Music that you said that launched last week, could you talk about kind of – what kind of impact that would have? And is this something where you think this would be useful in terms of retention or new customer wins? I think you've already had a lot of offerings in this kind of venue; in music, independent music festival space, but just talk about what the implication of this is.

And then secondly, with YouTube, is this already live now and then could you talk at all about the economics or the somewhat similar to some of the other deals you've had? Anything around that would be useful. Thank you.

Julia Hartz
Co-Founder, Chief Executive Officer & Director, Eventbrite, Inc.

A

Hi, Mark. Thanks so much for the questions. So, for Eventbrite Music, we have gone to market as of last week with a product that is tailor-made for independent music venues and promoters as well as festivals and this applies to not only those who are currently using Eventbrite but also, of course, those who are currently using the legacy Ticketfly platform. And so while related, they really are two different tracks of work: migration and then the Eventbrite Music product.

And so where we see the great value of Eventbrite Music is that we've been able to utilize the extensibility of our platform and the modularity really to bring together an offering, a product offering that's focused on specifically venues so giving them expanded functionality to manage their box office, to manage their checkout experience, their marketing capabilities.

And we've also coupled that with our launch with YouTube, which YouTube in itself joins 50 distribution partners already live today on the Eventbrite platform. And as you know, we integrate with these distribution partners to effectively put the right event in front of the right consumer at the right time wherever they may be to drive a

superior discovery experience. This benefits our creators, not just Music creators, but certainly, in the case of YouTube where they have 1 billion music fans monthly looking for music and discovering a new artist, this linkage to live shows is really important and so we think this is very valuable for our Music customers. And they join Spotify, Pandora, Bandsintown, Songkick, Facebook, Instagram, just to name a few music-friendly distribution channels on the platform.

And, finally, I'll tell you a quick story of a venue that's using Eventbrite today. Neumos is a venue partner of ours in Seattle. They not only own a venue, but they also host a three-day music festival called Capitol Hill Block Party and they're already seeing, in the first months of being on our platform, an uptick in sales from using Eventbrite Music. Not only do they credit the product for saving them time and hassle on the ticketing front, but they also see a significant marketing benefit by way of the data that we make readily available from our platform, as well as these distribution opportunities.

Mark Mahaney

Analyst, RBC Capital Markets LLC

Great. Thank you, Julia.

Q

Julia Hartz

Co-Founder, Chief Executive Officer & Director, Eventbrite, Inc.

Thanks, Mark.

A

Operator: Your next question comes from the line of Heath Terry of Goldman Sachs. Please go ahead. Your line is open.

Heath Terry

Analyst, Goldman Sachs & Co. LLC

Great. Thanks, Julia and Randy. Randy, the revenue that you're talking about losing is part of the re-platforming of Ticketfly. Are those customers that are going somewhere else? Is it a change in pricing? Can you just give us a sense of sort of what that means? Maybe competitively or sort of for the combined business going forward in terms of how we should think about relative growth rates on the other side of this.

Q

Randy Befumo

Chief Financial Officer, Eventbrite, Inc.

Sure, Heath. Thank you for the question. When we think about migration loss, it comes in a variety of shapes and so the first thing to understand is unlike a SaaS contract that has a visible and stable revenue stream, our creators grow or shrink, depending on their businesses. And so when we're looking at migration and migration loss, you have to think about not just our part of it but also the creators' growing and shrinking as well.

A

Within that, though, there are really a few reasons that a creator will not migrate after an acquisition. The first, as you correctly inferred, is competitive activity. However, that's not the sum total. Some customers will choose to in-source, some customers actually, in the period between acquisition and migration, may unfortunately go out of business. Others may be acquired by companies that have competitive ticketing platforms or that already have preexisting ticketing relationships and those may actually drive the decisions, not anything about the Eventbrite platform.

So far, in our migration, we've seen a mix of them. There's no one overwhelming factor. We try to take them all into account when giving you and TheStreet guidance in order to give you the best sense of where we believe we'll land at the end of the quarter in terms of revenue.

Heath Terry

Analyst, Goldman Sachs & Co. LLC

Q

Great. That's really helpful and then just as we think about pricing next year, obviously, some changes were made to the pricing structure in Q3. When we think about sort of the impact of that on the fourth quarter and into next year on a run rate basis, how should we be thinking about the impact that pricing has relative to organic ticket growth?

Randy Befumo

Chief Financial Officer, Eventbrite, Inc.

A

Great question, Heath. So, first, I want to talk about our strategy with regard to pricing and then talk about our operational activity.

Our strategy with pricing is straightforward. We think it's important to have affordable pricing, both from a creator standpoint and a consumer standpoint. We think that this drives the best outcome for our platform and so within this context, we anticipate, over the next year, taking targeted pricing actions in particular markets in order to drive greater volume. We've seen a lot of evidence on our platform of elasticity of demand and we tend to tune toward that demand. Sometimes, it means shifting from a percent to a fixed fee a little bit. Sometimes, it means tweaking the payment processing fee, but in general, what we're trying to engineer for is to maximize the paid ticket volume through the platform as our business model generates revenue on every ticket that passes through.

Heath Terry

Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you.

Operator: Your next question comes from the line of Doug Anmuth of JPMorgan. Please go ahead. Your line is open.

Douglas T. Anmuth

Analyst, JPMorgan Securities LLC

Q

Thanks for taking the questions. I wanted to ask two. First, just when you think about the business across categories, the vast majority of it is in four large categories. Julia, just hoping you could talk a little bit about when you think the timing is right to move into other areas like tours and attractions and theaters and other things.

And then second, if you could talk a little bit about the Square partnership, how we should think about that into 2019 in terms of the timing of the rollout in certain markets and then also perhaps what it means for the financials, Randy. Thanks.

Julia Hartz

Co-Founder, Chief Executive Officer & Director, Eventbrite, Inc.

A

Thanks, Doug. So, I'll take the first and I'll let Randy take the second. On the first, when we think about developing categories and we look at the overall landscape of the midmarket, you're correct in that the top four major categories, which are large categories with lots of subcategories within them are music festivals,

registration, and endurance sports. Beyond that, that's about 80% of our total revenue today. Beyond that, there is this vast open field of emerging categories that make up the rest of the 20% and we certainly look at the trends in terms of categories in countries and global categories in aggregate when we look at where we might be able to lean in to grab some of the served addressable market. In 2017, we sold 71 million paid tickets and in 2018, we see a served addressable market in those four categories against our top 12 global markets where we serve creators as being 1.1 billion paid tickets. So, certainly, we see opportunity in growth there.

In terms of our commitment or our focus on developing more into categories, we will look at that from a platform capability standpoint and so when you see our investment in product and development, that's really a signal that we know developing our platform and our product is the best way that we can bolster growth in both emerging categories like potentially towards an attractions or other categories that we see in our platform today that we'd like to grow by share of revenue or our existing categories.

The best sort of detail I can give you is to look at what we've done in Eventbrite Music and so we've gone to market with a tailored offering towards the midmarket that's really focused on independent music promoters, venue owners, festival organizers, and we've bolstered not only a platform and product approach but also, we've been able to use M&A through our Ticketfly acquisition and our Ticketscript acquisition in Northern Europe to really gain some accelerated traction within that category.

So, in terms of the future, I think you should expect that we'll continue to cultivate category growth through our product and we will also lean into this commitment and development that we're making in Music globally.

Randy Befumo

Chief Financial Officer, Eventbrite, Inc.

A

Hey, Doug. It's Randy. I wanted to start off at the strategic level to your question. So, one of the benefits for Eventbrite of having grown such a large, attractive business that allows partners to access a unique customer base is that we can work with them differently than just being one of many clients getting the same product.

So, with Square, what we're doing in the partnership is building something together. We are currently looking at a timeline for the product delivery of the second half, but as everyone on the call knows, product timelines are subject to revision as new facts emerge. We believe, however, from a finance standpoint, the most likely timeline is the second half and that we'll see a slight elevation in our cost of revenues relative to where we've been for this product.

The trade for this is a differentiated offering that offers creators omni-channel reporting for the first time in the history of the industry. What omni-channel reporting means is that if you're a creator, it doesn't matter whether your revenue is coming from online ticket sales, offline ticket sales, maybe at the door, food, beverage or merchandise. It will all be together in one single set of reports and not only for terminals you run, but terminals may be partners at your event run in order for you to see, with one single view, all the cash and the movement of cash at your event.

We are very excited about the Square partnership and the products we're building together. We're also looking for other ways to work together. We have nothing to announce at this time, but we view this as a strategic partnership. And as you know, Square is an investor in Eventbrite and has an incentive to work with us above and beyond just the normal incentive of a partner.

Douglas T. Anmuth

Analyst, JPMorgan Securities LLC

Q

Great. Thank you both.

Operator: Your next question comes from the line of Youssef Squali of SunTrust. Please go ahead. Your line is open.

Youssef Squali

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Great. Thank you very much and, guys, congrats on your first quarter as a publicly traded company. Two questions, if I may. Going back to the Music offering, how does Eventbrite envisage really just change the experience, the workflow process for event creators from what was available before? Just trying to get a sense of how much of a step-up this is. And from the outside in, how should we gauge your success with it since we don't really have any visibility into verticals directly? And then I have a follow-up for you, Randy.

Youssef Squali

Analyst, SunTrust Robinson Humphrey, Inc.

A

Thanks, Youssef. So, our Eventbrite Music product is, from beginning to end, a slightly different offering for the Music creators who are using our platform and so it's everything from the way in which they set up their events and how it's tailored to the frequency of events, let's say, a venue versus a one-off event creator.

It's also integrated with other databases. We have artist databases. We have the capability to add VIP guest listing. We have an Early Access feature, external ticketing that allows for Music creators to promote their events off the Eventbrite platform. And this is – this, coupled with the distribution network that I spoke about earlier, just provides that customized experience for Music promoters in particular, and that's native to the platform where they're already benefiting from the global reach, as well as our ability to partner with API partners through our Spectrum ecosystem and also reach new fans. And so I can't stress enough how important it is to think about our distribution partners as tailwind to our Music creators' growth and supporting the growth in their business, as well as helping them engage new audiences.

And what's unique on the Eventbrite platform is that we have not just music fans. We also have hundreds of millions of just general consumers who are coming to the platform and interacting with the platform, which allows for a much, much larger audience for discovery of these events. And so in terms of really tracking our performance, I think that you're right. We aren't currently breaking out the category mix, but we will see the benefit of Eventbrite Music, I believe, in our net revenue performance quarter-over-quarter. And obviously, this is a category that we feel very strongly about and that we're making a sizable investment in. Randy?

Randy Befumo

Chief Financial Officer, Eventbrite, Inc.

A

Youssef, you said you had a follow-up?

Youssef Squali

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Yeah. I do. I do. So, the jump in the gross margin was a bit less than we anticipated. Maybe can you just – and I know there are a lot of puts and takes there. Maybe you can just help us go through those and I know, I think, for the fourth quarter, you're calling out \$2.8 million of additional [ph] amort (00:27:33) for Ticketfly. But as we look at 2019 importantly, how should we be looking at that? Thanks.

Randy Befumo

Chief Financial Officer, Eventbrite, Inc.

A

Thanks, Youssef. So, I'm going to answer in two ways. First, I'm going to talk about the third quarter then I'm going to talk about how to think about gross margin looking forward.

For the third quarter, as you saw, gross profit performed well and we focus on growing gross profit dollars over time. Gross margin was impacted by mix. We saw some non-transactional revenue related to the legacy Ticketfly platform that was higher than expected in the period and was lower gross margin than our average. Our fourth quarter guidance, as you correctly inferred, assumes a return to Q2 levels because we do not see that recurring.

In terms of thinking about gross margin going forward, in the short-term, I would call out exactly what you mentioned; the amortization of the Ticketfly platform. We will have amortization in the fourth quarter of 2018 and then it will end. From an [ph] optic (00:28:41) standpoint, that will appear to create a significant lift in gross margin.

In the long-term, what drives our gross margin are two simple things: scale and a shift toward international payments. From a scale standpoint, as we get bigger, we get access to better rate cards for things like payments and site operations, and that helps our overall gross margin.

In terms of international payments, international payments are structurally lower in terms of cost than in North America and so as our business moves international, we have a nice tailwind of gross margin as a result. Outside of that, we do have a few revenue streams we're incubating that some have higher gross margins, some have lower gross margins. In the very long-term, depending on that success in the mix, it could change the trajectory of gross margins but there's nothing currently we see that would do that today.

Youssef Squali

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. Great. Thank you both.

Operator: Thank you. [Operator Instructions] Your next question comes from the line of Scott Devitt of Stifel. Please go ahead. Your line is open.

Scott William Devitt

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thanks. It would be useful if you could provide any mix trends in 3Q in terms of revenue mix from creators onboarded via self-serve versus sales force-driven and any noteworthy trends in pricing package mix between Essentials, Professionals and Premium. And then secondly, any retention trends that you would highlight from the quarter? Thank you.

Julia Hartz

Co-Founder, Chief Executive Officer & Director, Eventbrite, Inc.

A

Great. Thank you, Scott. So, what we see in terms of performance in Q3 is in line with our typical trends. Over 95% of event creators are coming through our self-sign-on channels and our revenue mix is in line with the previously reported.

Also, on the retention trends, we see consistent retention trends so I want to step back and talk about retention for a minute. We look at retention by revenue retention. That's because the combination of self-sign-on and sales

creators coming onto our platform year-over-year is a real mix in terms of the profile of creators. Obviously, that small percentage of sales creators are creators that were signing to multi-year contracts, well, while the vast majority of the creators on our platform are signing themselves up and we're retaining them through our product offering and our service.

What we see is really strong growth for the event creators who stick on our platform and so, in 2017, we saw 97% revenue retention from prior years and we see strengthening in the first year cohorts. That's – we're seeing that same exact trend this year so while I can't report the exact number, I can say that it's in line with previous trends.

Scott William Devitt
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thank you.

Julia Hartz
Co-Founder, Chief Executive Officer & Director, Eventbrite, Inc.

A

Thanks, Scott.

Operator: There are no further questions at this time. I would like to turn the call over to Julia Hartz for closing remarks.

Julia Hartz
Co-Founder, Chief Executive Officer & Director, Eventbrite, Inc.

Great. Well, thank you all for your participation and interest in learning more about our business today. Before we close out our first earnings call, I'd like to express my deep appreciation for the creators who bring their passion to life and in doing so, create indelible live experiences for the world to enjoy and also to our 1,000-plus strong global Britelings who come to work each day to serve these creators. We succeed when our creators succeed and we look forward to sharing more over the coming quarters.

Thank you all for participating in the call today.

Operator: This concludes today's conference call. You may now disconnect.

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