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PRESENTATION

Maija Hongas - *Kojamo Oyj - Manager of IR*

Good morning, ladies and gentlemen, and welcome to Kojamo's Half Year Report News Conference. My name is Maija Hongas, and I'm Manager, Investor Relations here at Kojamo. And I'm very pleased to see you all here after this very weird circumstances that has been on for a while now.

Today's presenters will be familiar faces, CEO, Jani Nieminen; and CFO, Erik Hjelt. And after the presentation, we have some time for questions. First, we will be taking questions here from the conference room. And after that, from the conference call line.

But without further delay, please, Jani, the stage is yours.

Jani Nieminen - *Kojamo Oyj - CEO*

Thank you. Hello, everybody. Nice see you here in the conference room as well. I think the story is, of course, to people on the cover page and the one building in the middle is Lumo 1 Tower under construction at the moment on top of Ready Shopping Center.

Then if we move forward towards the agenda, I would say that today, we are presenting a solid H1 report. And in a big picture, I wanted to highlight some aspects. I would say that all our essential operations have been running. All construction projects have been proceeding as planned. We have strong progress in development projects. Financially, we are strong and in a good position. COVID-19 has had a limited impact for us. And on the other hand, we see that urbanization will continue creating demand, and we are well in line with our strategy.

As I mentioned, the impact of COVID-19 has been limited. Of course, one aspect is that there has been temporarily more supply in the market. We knew that a lot of new apartments will be completed in Finland during H1 because of the high volumes of construction work. But on the other hand, there's special circumstances to read the situation that, for example, most of the so-called Airbnb apartments were converted to long-term rental use. And at the same time, because of the circumstances, for example, students went back to their homes, either to their parents here in Finland and -- or back to their home countries. So that created temporarily a bit of unusual situation.

So we've been operating in a more challenging period of time. And on the other hand, now it seems that the situation here in Finland is relatively good. But on the other hand, of course, the anticipation of the so-called second wave has begun.

Finland's GDB (sic) [GDP] has significantly decreased. But on the other hand, compared to many other countries, it seems that the situation here in Finland is better. Of course, we have to keep in mind that Finland is a small export-driven country, and the second wave of pandemic to Finland export's markets would hurt our economy.

On the other hand, here in the property market, I would say that impact of pandemic are expected to be temporary. And urbanization will continue. According to the latest estimates and forecast published in June this year, urbanization will continue. And the housing need by 2040 is 700,000 apartments here in Finland. And of course, Helsinki region will be growing most. And there will be the biggest need for new apartments.

In the operating environment, we already, during last year, saw that the construction volumes will be slowing down. A number of new building permits granted will decrease. And what's been happening this year, of course, combined with COVID-19, is that residential start-ups seems to be going down rapidly. And now the estimate is that only 28,000 apartments will be started this year. So the volume of new completed apartments in the market will go down during the next couple of years, 2021, 2022. And there, we have to keep in mind at the same time, that due to the urbanization, the need is to complete 35,000 apartments here in Finland to the biggest cities on average annually. So Finland seems to be heading for a period of time where there is less supply in the market against a growing need because of the urbanization.

Construction cost, the increase there seems to have leveled off. We were able to find really good opportunities during Q2 to buy new development projects from construction companies. Now what's happening in the housing market, it seems that the estimates concerning rent increases are still valid. On the other hand, it seems quite difficult at the moment to estimate what's going to happen with the housing trade.

During the pandemic, there was a severe slowdown. After the summer vacation, it seems that people are buying homes a bit more. But on the other hand, typically, this kind of uncertainty creates more demand towards the rental market, and people are less attracted to buy homes.

Of course, as the forecast is, urbanization will continue, and by far, the biggest need for new homes is in Helsinki region. So it's good to keep in mind that still the same big drivers are creating a lot of demand for new apartments in the biggest cities. Urbanization and development of household sizes, actually, according to the latest forecast, the development of housing -- household sizes, so the number of 1- and 2-person households is still growing, and that creates actually more demand to create new homes than the population growth. At the same time, we have seen that people are increasingly attracted by the freedom provided by rental homes and the services we are able to arrange in rental homes.

As I have been pointing out prior, it's good to notice that even typically people tend to think that Finland is a country with owner-occupied apartments. Here in Helsinki, more households are living in rental apartments today than in owner-occupied homes. And at the same time, close to half of the households in Turku and Tampere are today living in rental apartments. And the number of households living in rental apartments has been increasing annually.

Occupancy is still on a good level even though, of course, temporarily, the operating environment has been more challenging. For example, here in Helsinki region, as I said, a lot of new apartments have been completed during H1. At the same time, supply came from so-called Airbnb apartments and the students went to their parents. So it's not been a typical situation. But it seems that the impact is temporarily. And to give some color on that issue, for example, here in Coram, we have been making more new rental agreements every month since April. And July was highest number of new rental agreements this year.

And if we take a look of the fair value of the housing portfolio, it's good to keep in mind that we've been focusing to the biggest cities and city areas here in Finland. 73.4% of the housing assets are located in Helsinki region. And if we combine Helsinki, Tampere and Turku regions, more than 87% of our housing assets are today located in these areas.

The number show that it's been a really solid H1, providing profitable growth. And the net rental income increased more than total revenue. The like-for-like growth of rents was 2.4%. The revenue grew with 3.2%. And at the same time, the net rental income increased by 6.2%. The funds from operations, EUR 71.5 million, the increase there was 7.6%. Fair value of the investment properties today, EUR 6.5 billion. Of course, we have to keep in mind there that during Q4 last year, we made a valuation methodology change, and the impact there was roughly EUR 800 million.

Gross investments during H1 was EUR 179 million. And there, by far, the biggest portion was new development projects, and investments there, EUR 156.5 million. Profit, excluding changes in value, EUR 77 million, was 6.6% above the corresponding period. And then we received a EUR 48 million net gain in fair values compared to last year's EUR 72.3 million and ended up profit before tax is EUR 125.2 million.

As I said, we were able to make quite good agreements concerning new development projects during H1. And at the end of H1, we had 2,380 apartments under construction, all located here in Helsinki region. We completed 201 apartments. And it's good to keep in mind that as we have a really high number of apartments under construction, we kept ourselves busy during Q2 and started 811 apartments.

So we do have a really strong pipeline and a solid base for our growth strategy. A record high number of projects under construction, combined with cooperation agreements providing more than 1,200 apartments, combined with so-called Metropolia properties where we have the zoning process ongoing and expected to be completed by 2020.

So a lot of new apartments are needed here in Helsinki region. And Kojamo by far, at the moment, is the biggest player, providing new homes and helping the urbanization. We have all our properties along with public transportation with good micro locations. And of course, the strong pipeline will come visible as growth starting by 2021 as we -- the number of new completions will severely grow. Next year, we are completing more than 1,200 apartments. And then 2022, more than 1,800 apartments will be completed. And of course, every day, we still keep on working in order to try to find some new good projects.

Digitalization has always been an important topic for Kojamo. And today, Kojamo is a front runner, thanks to online selling and My Lumo mobile services. At the same time, we do believe that there are still a lot of opportunities available in using technology and digital solutions. The digital road map will focus on creating even better customer experience, operative excellence and efficient use of data and AI. So during the next years, we will be providing new solutions as well. We are not stopping with online selling and My Lumo services.

Today, of course, we are already providing a high-quality customer experience and a lot of services, an easy access with online selling, a lot of services for a customer entering Lumo World. On the other hand, we are providing a lot of services and taking good care of our existing tenants with a lot of -- a wide-scale of different services. A daily operation is to use My Lumo application where you are able to take care of all your problems, ordering services. And it's good to keep in mind that web store is not a pilot project. We are, at the moment, getting half of all new customers from the online selling.

So at H1, over 18,000 new agreements there. Today, more than 19,000. We are on the level where we are able to do so-called A and B testing, a lot of new features in online selling, and that's one aspect that will even be growing in the future.

Sustainability has been a really important issue for us as well. It's part of our company's DNA. Now we have conducted a materiality analysis of sustainability, and we will publish our sustainability report later this year. At the same time, during the summer, we participated CRESPI for the first time. And as you see on the right-hand side, we have been quite successful in proceeding with our energy saving targets.

At this point, I would pass the microphone and topics to our CFO, Erik. Please, Erik.

Erik Hjelt - Kojamo Oyj - CFO & Deputy CEO

Thank you, Jani. And good morning, everybody, from my side as well. And it's great to see people here even in the conference room this time.

Page 17, if we start to look at the finance figures, so total revenue growth was 3.2%, and revenue growth was EUR 5.9 million. Completed apartments contributed EUR 3.3 million for the growth; acquisitions, EUR 0.2 million; EUR 0.5 million disposal was a negative figure, of course, the EUR 2 million; and then rent increase is EUR 4.1 million. The like-for-like growth was 2.4%.

If we then look the profit from change in fair value of investment properties, EUR 48.2 million. So 2/3 of that was contributed by the end of restrictions and 20% for development gain. And we booked modernization investments. Money spent there has a negative change in fair value of investor properties that was EUR 10.7 million. At the end of H1, we kept all major parameters. (inaudible) BB and the yield requirement is unchanged given the fact that in the market, there hasn't been any transactions. And we discussed a lot with the brokers and JLL, and they share our view that now it's not right time to change the yield requirements. And we want to see transactions, and hopefully, at the second part of this year, we will see some. And of course, we can look at the yield requirements. Again, but we estimate that digital ones will be flat given the lack of acquisitions in the market.

Net rental income, the growth there was 6.1 so bigger, stronger growth than the top line growth. The growth was EUR 7.2 million. Total revenue contributed EUR 5.9 million. Maintenance was EUR 1.5 million lower than in corresponding periods, mainly thanks to the mild winter during the first quarter. And repairs was EUR 0.2 million higher than in the corresponding period.

Net income margin, what we booked was a 65.6 but it's good to keep in mind that we booked all property taxes in Q1. So if we adjust the NOI margin with the property taxes allocated for the second half of this year, so the margin is above 68%.

FFO grew EUR 5.1 million. Net income contributed EUR 7.2 million. SG&A expenses, quite flat, so EUR 0.3 million, bigger than in corresponding period. Financial expenses, EUR 1.5 million more, given the fact that the loan portfolio was much bigger than the corresponding period. And cash taxes, EUR 0.7 million higher than in corresponding period. Occupancy rate stood on a quite good level despite of the COVID-19, as Jani already described.

Page 20. The gross investment is EUR 179 million, a little more than EUR 166 million spent for development investments. Modernization investments, EUR 10.7 million. And capitalized interest, EUR 1.5 million. During H1, there are no acquisitions actually. We participate one bidding competition before the summer break. We were on the second round, but the asking price was so high that we were not willing to pay that price, and we dropped out from that bidding competition. The transaction hasn't been finalized yet. So we don't know what the final outcome is going to be, but we were ready to pay that price.

Monetization investments and repairs moved sideways compared to corresponding period. We estimate going forward that monetization investment and repairs put together is going to be somewhere between EUR 60 million and EUR 70 million per year. And 2020, we estimate to be on the lower end of that range.

The value of investment properties, EUR 6.5 billion. And as Jani mentioned, at the end of last year, we changed the value [Gentech] that contributed roughly EUR 800 million positive impact for the value of the properties. Change of the properties, the value of priorities this year has been positive as well. And we still have, at the end of H1, 2,633 apartments where we still have restriction regarding the evaluation of those properties. And those restrictions will be credited by the end of 2024. And the uplift in the value on average is going to be 80, EUR 8-0 million per apartment. So that's a little more than EUR 200 million altogether. And 15, 1-5 percent of that will be -- will come through this year, 30% in 2024, and the rest is spread evenly for the other years. At the end of H1, we had 426 so-called heavy apartments where we still have restrictions regarding the rents, and those restrictions will end by the end of this year.

Page 22. Our strong pipeline, now looked from the euro point of view, if you like. So apartments under construction, almost 2,400 apartments, more than EUR 280 million already spent in those ongoing developments, a little more than EUR 300 million to be spent to complete those apartments. Then we have binding agreements, mainly cooperation agreements with SRV and Hausia, providing us 1,252 apartments and a little less than EUR 270 million to be investing in those apartments.

And then our land bank, right-hand side volume, where we have pure land, we are able to build more than 1,000 apartments on that. We have a plus where we have existing resi building, and the idea is to demolish existing building and build a new one, around 700 apartments to be built there. And then these conversions, biggest one being the Metropolia case, more than 1,000 apartments.

All these plots and real estate developments are located in Helsinki region. And we estimate that the whole year development investments are going to be somewhere between EUR 320 million and EUR 370 million. And we end up this EUR 320 million total figure for this year, if we just make these investments that are already ongoing. But the idea is to start a couple of new ones. And if we are able to proceed according to our plans, also we will end up this higher end of that range.

So far, we've been able to book on average 20% development gain when we are completing this development project. And we estimate that, on average, the development process is going to be the same in all these this project that we currently have ongoing and in this cooperation agreements. And on top of that, the net initial yield in all these projects on average has been 4-ish percent above that. So if you look at the future growth, that means that we are able to grow for -- both for the value of the properties and the top line as well. So that gives very, very strong growth for us going forward.

Equity ratio, Page 23. And lot value, we have set targets for lot value to be below 50% equity ratio, to be above 40%. And we are well in line with these targets, and we have quite nice buffer actually against these target levels. So we are able to grow without asking any new equity. LeanHeat

EPRA NAV, 15.62 at the end of this year. They changed the guidelines for EPRA NAV. And we are going to adopt at the year-end figures. But this is the old one, if you like, EPRA NAV. And the growth there was strong as well.

Page 25. Our liquidation on a good level. With that, the European market at May, and now of course, our liquidity is on an unusual high level kicking the cash equivalents, liquid final assets and unused credit facilities as well. But we decided to tap the market because we felt that it's better to make these financial agreements earlier rather than later given the strong development pipeline, what we have and the uncertainties in the market. And that was -- that Eurobond was very successful, 7 years maturity, 3 or 4x oversubscribed, carrying a coupon of [1.7875].

Page 26, capital structure. Now the portion of bond financing is 54%. And going forward, we expect that portion to grow even more. We want to have bank financing in place as well. And given the growth of the company, of course, the euro-wise, even that the bank financing can grow going forward as well. Hedging ratio at the end of H1, 87% average interest rate, one notch down, 1.7%. The coupon was slightly higher than on average in our portfolio, but we paid back EUR 100 million bond there. The coupon was much higher. And then we paid back a couple of smaller bank loans where the margin was even higher than in these existing loans. And the average interest rate period and average loan parity, healthy, close to 5 years.

Page 27, strategic targets for 2023. A couple of notes there. One is that the average growth per year in strategy for -- between 4% and 5%. Going forward, we estimate in the midterm that the like-for-like growth is going to be somewhere between 1. -- 2.1% and 2.5%. And if we then add these ongoing developments, which when completed, they start, of course, generate positive cash flow, and that will contribute very strongly for this top line growth.

Against total revenue, well in line with our target. But again, there's an impact for the fact that the property taxes was booked for the whole year in Q1. So if we allocate half of the tax for the first half, this ratio is around 40%.

Outlook. Top line outlook, slightly specified. As discussed earlier, we participated in that being competition for acquisitions and decided not to acquire that portfolio. And then we, of course, looked at the market. But given the fact that more than half of the year has already past, and even if managed to acquire something, that the impact for the top line is going to be quite limited for this year, and that's why we slightly revised the top line guidance. And we retained our FFO guidance. So no changes there.

We estimate the impact of COVID-19 for the outlooks. And I think the main takeaway here is that we expect that our operations will continue for the most part. So we estimate no specific changes there having impact for our outlook.

And now back to Jani.

Jani Nieminen - Kojamo Oyj - CEO

Dividend policy on Page 31. No changes there. Our objective is to be a stable dividend payer. And the annual dividend payment will be at least 60% of the FFO provided that equity ratio is 40% or more, taking account of the company's financial process and both the equitation and finance positions seems to be strong at the moment.

To summarize what's been happening, I would say that it's quite obvious that we have been having a really solid H1 with profitable growth. And in our strategy, it's important to understand that we are able to grow from various sources. We are combining growth from new development projects. We are able to buy portfolios. If we find a matching portfolio to our portfolio and the pricing is right, then we are able to convert buildings into apartments, like the Metropolia case.

We have been having a strong progress in property development. The pipeline is record high. And we are well in line with the strategy and in a good position to continue our operations.

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Thank you. At this point, I will pass it to Maija.

QUESTIONS AND ANSWERS

Maija Hongas - *Kojamo Oyj - Manager of IR*

Thank you very much. And Erik, please, would you join us to the stage.

So now we can have some questions, and we will start here from the conference room.

Anssi Kiviniemi - *SEB, Research Division - Analyst*

Anssi Kiviniemi from SEB. New rental contracts, you highlighted that July was a record for this year. What about year-over-year comparison because I would assume that July is a strong month altogether. So how is that?

And also, in Q2, occupancy ratio, that was quite low. So do you expect it to be the lowest point this year? Or do you expect it to be kind of in a similar level going forward?

Jani Nieminen - *Kojamo Oyj - CEO*

Typically, of course, it's to understand that the more new agreements we do, the better the occupancy typically gets. It may take a period of time before they're valid. So the lowest point is probably over because we've been doing more and more new agreements all the time.

And not to provide the exact figures, but July this year was really good compared to many years.

Anssi Kiviniemi - *SEB, Research Division - Analyst*

Yes. The second question, it's basically on the pipeline. Sorry, if I missed it. But how much of the overall pipeline commitments and units under construction are in the capital region, in Helsinki region?

And what's the situation in Metropolia development project? And could you give us some kind of indications on how many apartments will there be, roughly altogether? Just to figure out what's the potential of the project.

Jani Nieminen - *Kojamo Oyj - CEO*

Recall right, of course, it's easy to say that all the projects under construction are okay here in Helsinki region. And actually, it seems that the whole pipeline is located here in Helsinki region.

And the Metropolia case, it's an online -- ongoing zoning process. We expect it to be ready this year. Of course, it's not entirely in our hands, but we expect and hope that it should be totally ready this year. And the expectation there is 1,000 new apartments here in Helsinki region.

Unidentified Analyst

Yes. I'm Mark from OP Bank. How much of would you say that this COVID-19, i.e., work-related integration and students moving back to home affected your rental income in Q2?

Jani Nieminen - Kojamo Oyj - CEO

I would say it's not easy to provide an exact figure. We are sure that it had an impact because temporary -- the market has been challenging and totally different. And of course, there's a combination that people were not able to continue organization to move other cities to Helsinki. On the other hand, students were leaving the rental apartments. And of course, at the end of the day, even though we've been quite successful running business from home offices, it's not entirely the same process.

Unidentified Analyst

Second question, you highlighted that the supply of rental apartments have grown in Q2, mainly because of -- like this Airbnb apartments coming to the market. Has that affected the rent level of new lease agreements?

Jani Nieminen - Kojamo Oyj - CEO

Not here in Helsinki region. No.

Maija Hongas - Kojamo Oyj - Manager of IR

Okay. Then we can move on to the questions from the conference call line. So please, operator?

Operator

(Operator Instructions) Our next question is from (inaudible) from Nordea.

Unidentified Analyst

So the first question is regarding the like-for-like in Q2. I didn't find specifically mentioning of that. But 2.4 in H1 and 2.6 in Q2, so is it fair to assume it was a bit lower, 2.2?

Erik Hjelt - Kojamo Oyj - CFO & Deputy CEO

It was a bit lower. Yes, you're right. Yes. So the 2.4 of H1 for this year.

Unidentified Analyst

Yes, you don't see any impact from the increased supply of Airbnb on like-for-like going forward?

Erik Hjelt - Kojamo Oyj - CFO & Deputy CEO

How we see the market is that those apartments that were converted for short-term lease to longer-term lease, so Airbnb apartments that has already happened.

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Unidentified Analyst

Okay. That's clear. Regarding the valuation changes and the EPRA yield that you disclosed. The EPRA yield went down from 4.29 to 4.22, roughly. Has that more to do with the timing of vacancies and so on?

Erik Hjelt - Kojamo Oyj - CFO & Deputy CEO

It's pretty much the timing on the vacancy. So if you look the figures for passing rents, so there's a slight change there. So no material changes, actually.

Unidentified Analyst

Okay. Then I think it's good that you talked about the development gains that you have had on your new developments. Those appear to be quite encouraging. And you said that a yield of 4% or more. So then we should -- it's easy to calculate that we get into the 3% to 3.5% valuation yield range, is that correct to expect that? I guess that is what you have guided also that transactions have been made on new apartments in the capital region?

Erik Hjelt - Kojamo Oyj - CFO & Deputy CEO

Well, if you just look and use our excel, so 4-ish percent of net initial yield and 20% development gain gives you 2. -- 3.2%. So it's -- you are in the ballpark. I think you are right.

Unidentified Analyst

Okay. That's good. Then perhaps, there was a review (inaudible) published yesterday. And they also suggested that people postponed their buying apartments and move more to rentals. Have you looked at that? And do you agree with the conclusions there?

Jani Nieminen - Kojamo Oyj - CEO

We've been providing views that people are increasingly interested in rental apartments for a period of time already. So I guess it's the other way around, they are backing our story.

Operator

Next, we have Amuna Elena from Barclay.

Unidentified Analyst

I just got 2 questions. The first one is about the guidance. What are the reasons behind the lower -- higher range for your total revenue increase guidance?

And the second question would be on the pipeline. Can you confirm because we might have heard it wrong, but do you expect the profit on cost from the development pipeline to be around 20% going forward?

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Erik Hjelt - Kojamo Oyj - CFO & Deputy CEO

20% development gains, so it's against the cost, correct there. And the reason, as mentioned, to go specify the top line guidance was that even if we managed to acquire a sizable portfolio this year, the impact for the top line this year is (inaudible) given the fact that of the already passed. So that was the reason why we slightly specified the top line guidance.

Operator

We have Neil Green from JPMorgan.

Neil David Green - JPMorgan Chase & Co, Research Division - Research Analyst

Just one question on the balance sheet. I guess the average cost of debt of 1.7%. There's not a huge amount of debt coming up for refinancing in the next few years. But I was wondering where your kind of marginal cost of debt is today, please? And if you see any opportunity to bring that 1.7% down over the coming few years as well?

Erik Hjelt - Kojamo Oyj - CFO & Deputy CEO

So the coupon in the latest Europe on was 1.875%. And the spread has come in after that. So that how the market at the moment seems.

Operator

There are no further questions at this time. Please go ahead, speaker.

Maija Hongas - Kojamo Oyj - Manager of IR

Thank you very much. We have from the chat function only one question, but it covered Metropolia project that we already discussed.

So thank you very much for all of you participating. If you may switch to the next slide. Thank you. We are going to publish our interim report for Q3 on 5th of November. And earlier, we mentioned that we are planning to have a Capital Markets Day this September. But unfortunately, due to the circumstances, we have decided to postpone that until next spring. I hope the weather is nice then, and you'll be able to see our properties. And I hope the situation is much better then. But instead, we are going to arrange Investors Day in a virtual format, 2nd of December. We'll be sending to save the date soon, so let's see you there. Thank you very much.

Jani Nieminen - Kojamo Oyj - CEO

Thank you.

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