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# Delta Air Lines, Inc. (DAL)

Morgan Stanley Laguna Industrials Conference

## CORPORATE PARTICIPANTS

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## OTHER PARTICIPANTS

**Eli Gross**

*Analyst, Morgan Stanley*

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## MANAGEMENT DISCUSSION SECTION

**Eli Gross**

*Analyst, Morgan Stanley*

Thank you. Welcome. Good afternoon. I'm Eli Gross. I'm the Global Head of Morgan Stanley's Transportation & Infrastructure Investment Banking practice. And today, we're pleased to host Paul Jacobson, Jill Greer and others from the Delta Air Lines management team for a fireside chat. Thrilled to have them, and thank them very much for making time.

I'd like to thank everybody who's dialed in or Zoomed in to this webcast for attending the Virtual Laguna event. Huge success of our great turnout and we look forward to the discussion this afternoon. I was told I need to read a disclaimer at the beginning of the chat, so I will. Bear with me for one second. It says please note that this webcast is for Morgan Stanley's clients and appropriate Morgan Stanley employees only. The webcast is not for members of the press. If you are a member of the press, please disconnect and reach out separately. For important disclosures, please see the Morgan Stanley research disclosure website at [www.morganstanley.com/researchdisclosures](http://www.morganstanley.com/researchdisclosures). If you have any questions, please reach out to your Morgan Stanley sales representative. Thank you.

Maybe we'll start, first, Paul, and say a couple things. First would be, congratulations on the SkyMiles financing, which really was earth-shattering and we'll spend some time talking about that today. And the second, on a personal note, I wanted to say that I recently took my oldest daughter back to college and I flew on Delta there and back. It was a great experience, the clubs, checking in, the crew and the equipment, extremely safe and felt very well taken care of. So, thank you and I look forward to getting back on to hopefully more Delta flights when this has passed.

## QUESTION AND ANSWER SECTION

**Eli Gross**

*Analyst, Morgan Stanley*

Q

So, with that, Paul, we had a few questions. And I thought would be topical announcing whatever you think is most topical. But one of the great expressions, I think, is – from our CEO James Gorman is that you never want to let a good crisis go to waste. And so, reflecting on the past six months or so for Delta Air Lines, what are the things – in addition to cost, obviously, but what are the things that you would say Delta has learned through the crisis that will also benefit the company once we return back to normal, some of the lasting kind of behaviors or things that you've learned?

**Paul A. Jacobson**

*Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.*

A

Yeah. Well, first of all, let me start by thanking you, Eli, for having us and for also flying on Delta. We appreciate that. And my family has flown probably half a dozen times together. And it really is a good comforting experience as well, so we appreciate you saying so.

Second, I'll add that this is, I think, my first time to the Laguna Conference or at least in several years. We usually have a conflicting engagement this week. But it's not lost on me that the one time I get to go to the Laguna Conference is when it's virtual and I don't actually get to see the beach. So, we're here in Atlanta dealing with the remnants of Tropical Storm or Hurricane Sally. And she's brought a lot of rain to Atlanta. But we'll just pretend it's the beach for now. But thank you for having us.

Hey, look, one of the things that I've said is that I think the word unprecedented gets way overused this year 2020. And you used the figure of speech earth-shattering, which I don't actually think we can use in 2020 because it might actually literally happen. But I think this crisis has taught us a lot. And personally reflecting a lot on what this means, first and foremost, I think it's a showcase for the Delta culture and Delta people to show how much they care about customers and how much they care about this company, whether it's 45,000 people that rushed to sign up for a voluntary short-term, unpaid leave or over 17,000 people that opted to retire early under one of our voluntary programs.

I can assure you that no one planned their retirement to look like this, but many of them that I've had a chance to talk to really considered it bit of a badge of honor that they could give up their job to help preserve a job for someone else. And it's that type of culture that makes Delta really special and unique. I think also the way that the company rallied to the cause when we first said in March that we were going to set out to reduce operating expenses by 50%, like many things at Delta that gets established as a stretch goal, there's no real path to get there.

But with those goals within the walls of Delta people rally and within six weeks of this crisis, we had raised over \$3 billion of cash and we had gotten our run rate expenses down by 50%, which we carried through in the June quarter. We're going to do it again in the September quarter. And we're continuing to focus on cost reduction and hope that will get closed, if not there in the December quarter as well.

And we've done that in spite of more capacity being flown in September than we saw in June. So, I think when you think about the don't let a good crisis go to waste, this is really the path before us. I think with this bond deal, with the stabilization that we've had in cash burn, albeit we're still burning roughly \$750 million a month. That is

way down from where it was and it's been pretty stable and we see some shoots of demand coming back, although it's quite small. And much like we said in July, we don't want to be over-exuberant about it.

We can turn our attention, now that the bond deal was done, to really focusing on 2021. And that's going to be the most challenging planning year ever. We're used to planning within a precision of maybe a half a point in capacity. And now we're looking at a plan that's anywhere from down 25% to down 40% versus 2019. It's a massive variability that we've got to get our arms around. But if we can take the momentum we have around cost and apply that to the rebuild of the network as demand comes back, I think we're going to be positioned to do quite well once things return to normal. And while that might be a long journey of a couple of years, I feel confident in our ability to be able to get there.

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### Eli Gross

*Analyst, Morgan Stanley*

Q

Yeah. And you've guys done obviously a tremendous job on the cost side, on the liquidity side. One of the questions that I think is coming in from the audience and it was a question that I was going to ask as well is clearly we're seeing, and you guys have said, some of the leisure traffic coming back. [ph] And as I said that (07:30) you've been traveling with your family, I've been traveling with mine, I know plenty of friends who are scheduling vacations throughout the fall into the colder months in the Northeast.

But when you think about the business travel, one of the questions getting here is, how do you see the business traveler following the leisure traffic? If guys like me are comfortable traveling and I'm a business traveler certainly, I imagine I'll be following, but is that kind of what you expect or how do you see that playing out?

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### Paul A. Jacobson

*Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.*

A

Yeah. I think we've said from the beginning that leisure was going to lead the way, mainly because businesses are still really trying to figure out what is going to look like when things "normalize." I think many companies are saying we're going to go to a work-from-home model. We're going to go to a hoteling model or we're going to reopen the offices early next year.

I think as they do that, we'll see a little bit more demand come back. I think what the leisure patterns have shown us is that people are comfortable traveling in short bursts on short notice. In fact, the leisure booking curve has shrunk to probably 7 to 10 days. Nobody is making plans out there because they don't know what the outbreaks are going to be. They don't know what's open and so on. But for somebody to say, yeah, next weekend, I might want to go to Disney World or Disneyland and it looks good, I'll make plans 10 days in advance.

So, I think that's going to be the precursor for business travel to start to loosen up. We've seen some of that. We've got a large majority of our corporate accounts that have approved some travel, but it's fractions of what it should be. But that's how it starts, right? You telling the story about how safety felt means something to people and word of mouth is a powerful force. I was almost going to say it's viral, but that's the wrong metaphor to use in 2020.

But it is powerful. And as companies start to come back online, they'll be more receptive to guests, consultants, bankers, salespeople, coming in to visit them. And I think that will open up. I was in a conversation earlier this week and somebody said, the first time that I lose a sale, this was the person we're talking about it because I was doing meetings virtually and my competitors took them out to dinner or did an in-person meeting and an in-person demo. That's the last time I'm going to try this over virtually, right?

So, that's what's going to happen as things open up. But I think that we still really kind of have to wait for the vaccine for things to, I think, really serve as a catalyst to bring that back over time. And then, of course, domestic leading the way for international and I think international is probably a vaccine away from really normalizing how we think about crossing international borders again.

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**Eli Gross**

*Analyst, Morgan Stanley*

Q

That makes sense. I think about my early days in the airline business and people told me that it was a GDP-driven sector and drives demand and I think that is going to be the case. The economy is going to grow and travel probably tends to follow very closely. So, I know we're traveling and we're getting back to the office at Morgan Stanley and, as you said, it sometimes moves in step functions. [ph] So, it's variable on (11:07) demand.

On the liquidity side, we talked about SkyMiles at the beginning. I think looking at what you guys have done since COVID, it's hard to say that you've not been hyper disciplined about the way that you've decided to go to market and to raise capital, the types of securities and when you tap the markets. Or just maybe give us a sense of, okay, kind of how you thought about the balance sheet and the construct of it.

May touch on how SkyMiles went because obviously it was unprecedented in terms of size and a lot of other dimensions. And then maybe just how you think about the balance sheet going forward because of all the work you guys did in creating arguably – not arguably, factually investment-grade balance sheet and really a lot of financial firepower. So, how do you think about what you've done in the crisis and how you go forward from here?

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**Paul A. Jacobson**

*Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.*

A

Yeah. Well, I think I want to, first of all, thank the team for the work that we did over the last 10 years. I think you're really seeing that play out. And while we were wrong about the next downturn being free cash flow positive, nobody was imagining the 100-year shock that we're having to absorb. But I think what we've demonstrated through our access to the capital markets is the resiliency and the credibility of the balance sheet that we created and the commitments that we made over the last 10 years.

So, it's quite an endorsement when you go to the market and you can sell a little bit on credibility because we did all the things that we said we were going to for a decade. So, when we talk about – when we get through this, the first priority of business is going to be to repair the balance sheet and restore it to where it was. And while we've issued a lot of debt, we're carrying a lot of cash and the hope is that we can control the burn rate. What we say here inside the company is, every dollar we save is a dollar we don't have to borrow, because we've got to get that burn rate back to positive and get to a daily cash generation.

Once we do that, then I feel very, very good about the liquidity that we have. And then we can focus on rebuilding the airline and then once we do that, then focus on using some of this surplus cash to pay debt down. So, we've got about \$4 billion of maturities coming up between now and April, including the \$3 billion bridge loan that we did immediately in the early days of COVID-19. That'll free up some additional unencumbered assets, which will give us a little bit more of a cushion. But that's going to show you how we think about it going forward. And I may very well end up – we may buy back debt at a premium over time. We did a lot of that in 2009 and 2010 or 2010 and 2011. And that's okay.

That really is – what we did is we stored cash on the balance sheet in an effort to really, really take away some of the dilution risk because we never wanted to be in a position we were forced into the convertible or the equity

markets as a source of financing. So, the team's been incredibly opportunistic going on really good days, whether it is the frequent flyer deal that we just did or we did the unsecured deal a couple months ago.

We did the LaGuardia financing, which takes care of all the LaGuardia construction costs really through 2023. I feel very good about the liquidity position we're in. And it allows the company to enter into the next phase of planning the recovery and thinking about life after that. So, I feel like we're in good shape.

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**Eli Gross**

*Analyst, Morgan Stanley*

Q

Yeah. And just maybe to put a bowl on that topic here, I think I'd be remiss to not ask about what you said publicly just for this audience about government support and applying or not applying. I think you've been pretty clear as to how you've been thinking about it. There's been lots of different approaches across the industry, but I think I'd be remiss not to, at least, ask you just to maybe walk this audience through kind of how you thought about that, maybe going to government and taking the money, you're taking your share or not, which obviously you've said you're not going to do, but maybe [ph] just anything (15:37) on that call.

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**Paul A. Jacobson**

*Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.*

A

Yeah. So, we've been pretty open from the very beginning of that program that it was our desire to try to find public market solutions to our financing needs. And as long as the markets were open to us, we didn't feel like we needed the government loan nor we wanted to do it. As we were negotiating with them, and I think they're trying to protect the taxpayers and they've done a very, very good job of that. We, for us, found a more efficient use of that collateral in the private markets. And as a result of that, I think once we get this closed, we'll be able to say that we're not going to take the government loan.

And I think so far based on those disclosures and the disclosures of others, I think it's pretty telling that the strongest balance sheets going into this crisis are going to be the two that didn't take the government loan. I don't say that as a knock on anyone because I certainly understand it. But I think it goes to show you what we have said is the right business model for airline going forward is to make sure that you control the balance sheet because you've got to have that dry powder available. And while the next shock is unlikely to be as bad as this one, and granted I said that after the credit crisis as well, so God help us all if it's worse than this.

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**Jill Sullivan Greer**

*Vice President-Investor Relations, Delta Air Lines, Inc.*

A

Yeah. I won't be around the next one.

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**Paul A. Jacobson**

*Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.*

A

Yeah, exactly.

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**Eli Gross**

*Analyst, Morgan Stanley*

Q

Yeah.

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**Paul A. Jacobson**

*Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.*

A

We were on an internal call today and they said, well, this is a 100-year event. And I said, honestly, I don't care if it's a 50-year event. If it's a 10-year event, that's a little bit different. But I think that's a pretty important statement...

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**Eli Gross**

*Analyst, Morgan Stanley*

Q

Yeah. Makes sense.

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**Paul A. Jacobson**

*Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.*

A

... [ph] and I think (17:26) how we focus on cash generation and capital allocation going forward is informed about the progress we made over the last 10 years.

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**Eli Gross**

*Analyst, Morgan Stanley*

Q

Well, on that point, because there are a bunch of questions coming in here and I think it ties to your comment on a dollar saved is a dollar not borrowed, so obviously – and you're talking about capital allocation and where you spend your money. And it's pretty hard not to argue that over the past decade, Delta has – in the midst of de-leveraging and building the brand, you've also spent a ton, kind of re-fleeting, getting the clubs where you want them to be, and the technology and the user experience where you want it to be. So, that kind of brand and image that you've created and product that you created, how do you think about that going forward and the plans that you might have had and how you can kind of – whether it's the fleet or other things, you can keep investing, because there's a lot of questions here on kind of CapEx and what you plan to do?

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**Paul A. Jacobson**

*Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.*

A

Yeah. Well, I think there's two broad buckets. There's those things that were priorities pre-COVID that have had to shift into a back burner, if you will. And then there's parts of the capital allocation and spending that we wanted to accelerate. The fleet simplification is a great example of that, where the progress that we had outlined and the strategy we had outlined at previous Investor Days was talking about reducing the number of aircraft types from 13 to 8 in an effort to reduce complexity across the business.

And the problem with that in a world where we were perpetually growing was that it was a \$30 billion CapEx bill. So, we had to spread that out over 10 years to think about what's that trajectory when you balance that against all the capital allocation. But you started by saying, what are the opportunities that COVID presents? That's probably the biggest one, because we've been able to sit down multiple aircraft types, the MD-88s, the MD-90s, the Boeing 777s, some of the Boeing 767s that we had already announced and all in the name of simplifying it.

So, we reduced the training footprint. We reduced spare parts, tooling, inventory levels, just general complexity in the system. And we don't have to spend the dollars to replace that lift right now. We can spread that out over the recovery. And it actually makes it much more palatable. But I think when all was said and done, we may be able to accelerate that by 50%. We might be able to get all of those savings done within the next five years.

When you think about big opportunities like that, we're really aimed at what can we do to improve the efficiency of the operation. The customers, I think, were in a great position. But we got to put the hold on any new stuff until we understand what the customer wants when he or she comes back because it's going to be different, right? The

best example of that is cleanliness, right? The one area of the company where we're spending more money year-over-year is on hygiene, right, and cleaning. So, that's going to be important for customers.

At the end of the day, even in a vaccinated world, people are going to look at crumbs on the tray table or stickiness on the tray table as a sign that maybe this is not as clean as I thought it was or as clean as it should be. It's a different standard now, but it's one that we've been able to employ these new processes and procedures and we feel very good about it. And the customers have really responded. Our Net Promoter Score in August was 75. We used to think that 50 was aspirational. So, it's pretty evident what customers want right now. But those are going to shift over time and we need to make sure that we're agile enough to respond to them.

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**Eli Gross**

*Analyst, Morgan Stanley*

Q

Yeah. Makes sense. And then along – in a similar vein, although maybe not exactly the same, you've been – Delta's certainly been cutting edge over the last decade in terms of allocating capital, I'll call inorganic opportunities which could be [ph] obviously Trainer (21:46), it could be some of the alliance investments that you made to support some of your – support the strong international network, things like CLEAR where obviously you've been very seamless. But just how did – in an environment like this, are those completely off the table? How did those rank and how do you guys think about doing those things that again were kind of leading edge in terms of building the product?

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**Paul A. Jacobson**

*Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.*

A

Well, I'll start with our international partners. Obviously, they're still critically important to us and we've been lending expertise to them, a lot of assistance where we can on the process. Two of them have filed in US Bankruptcy Court, LATAM and Aeromexico, a process that we're all too familiar with from our history as well. And we can help and provide that insight where we can.

Virgin Atlantic, we put off some payables and – or some receivables and did some other things, but mostly it was really about lending that expertise and helping them think about the network, helping them think about fleet strategy, et cetera, because these are the things we can do within the spirit of our antitrust immunity partners, right? We don't have that yet with LATAM, so we're somewhat limited. But we can provide that assistance and that spirit of partnership. And that's where things get – that's where relationships deepen as in times like this.

So, as we think about going forward, I feel good about the international side of it. I think we just have to kind of wait and see. The great thing about CLEAR and other things is those were opportunities that came to us because of who we are and because of that spirit. And I think that's still there. I just don't think we have the capital to really put a lot forward in pursuit of those things right now until we have a little bit more certainty, because priority number one is rebuilding the network. We've got to be able to do that. Despite the fact that we were able to reduce our workforce voluntarily by 20%, we're still flying significantly less than that. So, we've got to get the operation up to the level of infrastructure support that the fixed cost base represents.

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**Eli Gross**

*Analyst, Morgan Stanley*

Q

Yeah. I want to ask this question, but a similar question came in, you're investing dollars to improve the contactless travel experience here. So, I'm sure you are and no doubt, so I want to make sure that the question, make sure, was acknowledged here.

All right. So, taking a big step back and really opening up the aperture a little bit, [ph] I know you kind of say (24:39) what you can, but do you think that the industry 5 years from now or 10 years from now domestically looks the same? Do you think there is – or is it a better environment, particularly, for new entrants or is it a tougher environment would you say for new entrants when you have the kind of challenges that we're facing?

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**Paul A. Jacobson**

*Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.*

A

Yeah. I think all of that is based on what you think the recovery curve looks like. We still might see pockets of demand returning over the next three to five years, right? Whether it's a complete restoration of business travel, or a complete rebuild of international, not really sure, but I actually believe that we're going to all probably end up kind of where we were. And the reason for that is, there's been a lot written about new routes that were out of the ordinary network. Those opportunities exist because I don't have a higher and better use for the airplane right now, right? So, I'm speaking generically, I'm not speaking about us.

As the network rebuilds, my highest and best uses for those assets is going to be right back where they were deployed pre-COVID, right? So, as demand comes back, I think we kind of see the sort of same, similar network patterns that we had. There may be pockets here and there where things shift around, but I think the industry has done a great job of liquidity raising. I think CARES Act 1 certainly provided needed support at a time that it was critical.

But as we start to see demand come back, it's naturally going to come back in all likelihood to where it was pre-COVID. The nonstop routes that people had and the miles that they accrued are still on the same carriers depending on where they are. So, we'll just watch and see how that comes out. But hopefully we're in that rebuilding phase and we start to see demand pretty consistent come back. But we've got to be prepared for it to drop off again if it does.

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**Eli Gross**

*Analyst, Morgan Stanley*

Q

Absolutely. One of the certainly flash points over the past couple of weeks has gotten a fair amount of attention deservedly so or maybe too much attention has been change fees. And what's your take on that? Why is it gotten so much attention? How does it impact Delta and the rest of the industry?

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**Paul A. Jacobson**

*Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.*

A

Well, I think it's funny that it's gotten a lot of attention when we got rid of it after we got rid of it. We highlighted this in December as something that we were moving towards. And then in the COVID world, it had to be done, right? It's nobody's fault that COVID happened. And as a result of that, you want to be as accommodating as possible to customers who, A, were loyal to you before that booked a ticket and that the flight got canceled; and B, more importantly, made it much, much easier and more flexible for them to book with you as it recovers.

Because if somebody has a change fee, then the likelihood that I'm going to book before I'm certain about what I'm going to do goes way down. So, that's why it was lifted in the COVID world anyway as to encourage people to say no harm, no foul, if you buy a ticket and can't take the trip. We just want you to be thinking about traveling.

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**Eli Gross**

*Analyst, Morgan Stanley*

Q

Yeah.

**Paul A. Jacobson**

*Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.*

A

And ultimately, traveling. So, when you think about this in the long term, probably for the next two, arguably three years, there likely weren't going to be change fees anyway. They were just going to kind of continue to be waived as we work through this pandemic, because once the vaccine happens or once the recovery happens, you still have a lot of pent-up credits that people kept on from trips they canceled. And it's going to take a little while to work through that.

But as you think about longer term, what you want to do is you want to remove the friction for transacting with customers and for them to transact with you. So, when you think about what those change fees represent, it's an obstacle to flexibility. Flexibility can sometimes mean that you want to spend more, right?

I may want to fly today at a higher fare than I bought, but if I had a change fee, I'm not going to do that and pay the higher fare. But I wouldn't pay the higher fare anyways. So, I think a lot of this ultimately works itself out. But in the bigger framework, it's starting to create more trust and transparency with customers. And ultimately, it's going to be a better experience for them.

**Eli Gross**

*Analyst, Morgan Stanley*

Q

Super. All right. Maybe we'll take one other question here. I'm going to take and I'll read it, and if you can answer. So, given that we're seeing this recovery mostly led by leisure travel, how much more aggressive can you be in going after a demand where it exists even if it's point to point versus maybe going through Hartsfield or some other hub, so?

**Paul A. Jacobson**

*Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.*

A

Yeah. Well, look, Hartsfield still remains a very, very powerful connecting complex. And it's harder to justify a point-to-point route on limited demand than it is plugging a new city into the hub, right, because it unleashes all the other cities and destinations out of that hub. So, we're really focused on what's that highest and best use of the aircraft. And I think the team's done a good job of that. The recovery that we have seen over the last several weeks has been somewhat steady, but it's still really, really low when compared to normal time.

So, don't mistake my conservatism with the lack of enthusiasm. We need that. But we also need to make sure that we're conscious because everybody wants to get started again. And we have to be very, very careful about opening that floodgate of costs and expenses to rebuild the airline until we're absolutely sure that demand is going to be there. That's what's going to preserve the most amount of cash going forward and position us best through the recovery.

**Eli Gross**

*Analyst, Morgan Stanley*

Super. Very helpful. It makes sense. I think we're out of time here. So, I want to say thank you to the Delta team, obviously, to Paul and Jill for spending time with us. Obviously, thank you to the investors who have joined us today.

And I think I would just say to the Delta team, I think you guys spent the last decade building a fantastic organization. I said at the beginning, I traveled and it was a great experience. And to the points we were talking about today on leverage and what you've done over the last few months here obviously in a very disciplined way,

I think the way that you've differentiated yourselves by raising capital and the way you've done and the demand speaks to this, the business that you've run.

And I do remember it was only a few months ago that the cash flow projections per year for Delta were \$3 billion to \$4 billion. So, I think we know the power of the enterprise and the power to generate free cash flow when demand recovers, which it will do with GDP. It's been around for 50 years, the correlation and I know it will continue.

So, really appreciate you guys being here today, and just Godspeed and thank you very much.

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**Paul A. Jacobson**

*Chief Financial Officer & Executive Vice President, Delta Air Lines, Inc.*

Thanks, Eli. Good to spend some time with you.

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**Eli Gross**

*Analyst, Morgan Stanley*

You, too. Thank you.

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**Jill Sullivan Greer**

*Vice President-Investor Relations, Delta Air Lines, Inc.*

Bye.

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