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Delta Air Lines, Inc. (DAL)

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MANAGEMENT DISCUSSION SECTION

Helane Becker

Analyst, Cowen and Company, LLC

Thanks very much. And good morning, everybody, and welcome to the 13th Annual Global Transportation Conference here at Cowen, that's being held in conjunction with the First Annual Mobility Conference. I'm Helane Becker, Managing Director at Cowen and Senior Airline Analyst

This morning, we're kicking our conference off with, as we almost always do, with Delta Air Lines. It's my pleasure to introduce Paul Jacobson, Chief Financial Officer of Delta. Good morning, Paul. I'm very excited to introduce you this morning to once again kick off the conference.

Did you want to say a few words before we head into Q&A, or did you have any thoughts about that?

Paul A. Jacobson

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

Yeah.

Helane Becker

Analyst, Cowen and Company, LLC

I don't know who's in the room with you. [ph] I do know I (00:46) saw Jill earlier.

Paul A. Jacobson

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

I've got Jill and Wesley here with me.

Helane Becker

Analyst, Cowen and Company, LLC

So, if you want to introduce her...

Paul A. Jacobson

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

Yeah. I've got Jill Greer and Wesley Matern here from our Investor Relations group. They are off-camera and muted so that we don't bombard everybody with endless streams of echoes. But, you know, thank you, Helane, for having us and thanks for that introduction. For everybody listening, appreciate you joining us.

Helane and I were just remarking that we were hoping this was going to be the first of the in-person conferences, but alas, no. We are still in the throes of distancing and people starting to get acclimated. And I think, bigger picture, there are encouraging signs on the horizon as we see vaccine development and we have seen slight increases in the amount of travel particularly in the leisure set. But as we said back in July, we expect this to be choppy and we expect that we're going to see ebbs and flows off the lows, but we're still well, well behind where we should be.

And as – you know, we kind of said from the beginning, I think we'll be here for a little while and we have to focus on controlling what we can control, which is the expense side of the equation and the team has done an extraordinary job quickly getting expenses out beginning in the second quarter where we reduced expenses by more than 50%. And we're on a really, really good trajectory for the third quarter to meet or achieve that goal for the third quarter as well.

So, that's important because that's what really controls the cash burn. And from the beginning of this, we've reduced the cash burn by more than 70% from the \$100 million-a-day that we were experiencing in the first weeks of the crisis. The good news is that the refund stream has slowed down quite a bit off of those highs, which makes sense, as we get further along the booking curve, and the booking curve shortens, there are fewer and fewer people that have travel that needs to be canceled. So, we're hovering around \$27 million a day and as we said, we were expecting this to be somewhat flat until we see meaningful recovery in demand. We have not seen that yet, but, with that, I think we're in good shape.

And then for what we can't control, which is the demand side and the return of demand, make sure that we brace ourselves with enough liquidity to be able to get through this. We had over 60 – almost \$16 billion at the end of June and we continue to make liquidity a priority for us going forward. And we think that recipe will help give us time to rebuild the airline. We have to be flexible and we have to be nimble in order to respond to changing demand and where it comes from. And I think so far, we're executing that well in a really difficult situation. I'm proud of the team.

QUESTION AND ANSWER SECTION

Helane Becker

Analyst, Cowen and Company, LLC

Q

That's really amazing, actually, how fast you're able to accomplish the goals, given everything that's occurred and the fits and starts we've had around the country with this virus. And just – so, since we're talking liquidity and financials, to kind of kick it off, the 364-day term loan, I guess it's current now...

Paul A. Jacobson

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

A

It is.

Helane Becker

Analyst, Cowen and Company, LLC

Q

...because I don't think you'd repeat it. So, I was wondering if you could talk about the loan in the context of the balance sheet and your capital allocation thoughts and how you're approaching – how you're approaching that.

Paul A. Jacobson

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

Yeah. No, it's a great question, Helane, and that was the first transaction that we did in the throes of the pandemic, and it was one that is attractively priced. It's got a good loan to value and we want to be very conscious about how we think about that. It's low-cost financing to keep out there. If you – as we talked about in our disclosures in the June quarter, we did a lot to both issue unsecured debt to take care of our unsecured maturities, one in December for \$450 million, and one in, I believe, it's April, for about \$600 million.

We were able to refinance those opportunistically. We're still holding the cash. Obviously, they're not pre-payable, but we've got the cash to do that. We were able to extend out our revolver and that bridge facility now is really the only maturity of significance that we have in 2021. So, we're keeping that out there. We're looking opportunistically at what we have to refinance it, but also, [ph] with (05:46) \$16 billion – almost \$16 billion in cash, a scenario where we start to see a recovery between now and then, we might have the ability to just pay that off. We are carrying more cash than we need in a normal state and that will probably be here for a while.

But we have plenty right now and we'll just kind of see where that ends up, but we don't want to continue to sort of rush into needing to refinance that because it's out there. And we're in constant communication with the lenders in that group too.

Helane Becker

*Analyst, Cowen and
Company, LLC*

Got you. When I was looking at the balance sheet at the end of the June quarter, and you have – it's a \$73-billion balance sheet which is okay on a company doing \$45 billion in revenue, but – and I know this is like a unique year where revenues are going to be more like \$15 billion or \$18 billion, so, how do you think about that long-term debt of \$19 billion, short-term debt of \$5 billion, which at this point includes the term loan? You know, I know you can't

comment on revenue per se, I get that, but I'm kind of like wondering, how do you think about the balance sheet relative to revenue and maybe potential growth, and also – and we'll shift to the network.

So, as you're answering that question, you can kind of think about the network which would be my next question. You flew to a lot of cities and relied on partners, and then as you think about coming out of this, will reliance on partners diminish? So, kind of a lot of questions in there. So, you can take your pick for how you want to answer them.

Paul A. Jacobson

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

A

Sure. I'll try to remember all of them. We all – we all set aspirational goals for ourselves and if you had told me a year or two ago, that I could be CFO over a \$75-billion balance sheet, I would have been delighted, because maybe we would have had a comparable market cap. But, unfortunately, I think I've learned enough to know that you'd rather have that in equity than debt.

But, look, I think there's two observations about that. One is, I think it really shows the magnitude of the crisis that we're in and we toss around in 2020 the word unprecedented way too much because it starts to become a little bit numbing, but, the reality is, we've never seen anything like this, even in past pandemics. Economies and countries have never really shut down before, the way they have in this one and I think that's something that everybody has to be aware of, going forward. Reactions are just faster in the Information Age and news travels faster et cetera. So, I think we have to be prepared for that.

And that probably means more liquidity for people going forward than what they had before. I don't think the right answer is 4 times what we carried in the past, but, we are going to have to be thoughtful about that.

And then the second observation is, I think it really demonstrates the power of what we've been saying for the last 10 years, which is, we've got to have an investment-grade balance sheet because we don't know what it's going to be, but it's going to be something. We never imagined it was going to be of the magnitude of this, but we knew something was going to be out there, and, I said many times that we thought we could be free cash flow positive through a downturn. Obviously, a shock to the system like this was not something that anybody really contemplated, but that's the reality we have to deal with. But thank God, we did all that work over the last 10 years, to make the voluntary contributions to the pension plan, to aggressively de-lever, and to instill a level of capital discipline in the company that we haven't seen really ever, and through any cycles beforehand.

So, I think if you look back at the lessons of the last 10 years, and you look at what we were able to do even on a much smaller company footprint, coming out of the credit crisis and through the merger synergies, et cetera, we really didn't experience our high level of growth and premium travel for probably about five years. It was kind of 2013 and beyond, but we still paid down a lot of debt in that 2009 to 2013 period by being disciplined with capital, and by focusing and driving the business on free cash flow.

I think that's the lesson here and we need to focus on restoring that balance sheet. I don't know if that's a two-year exercise or a four-year exercise, a seven-year exercise, but we'll figure that out because, I think, if there's one thing that we've proven pretty good at, as a company, is capital allocation. And debt reduction is a priority and will probably be the highest priority for us coming back out of this on the other side.

And then, in response to the question about the network and how we get there, I think we just have to be agile – another word that gets overused a little bit this year, but, the reality is, when I'm asked how big are we going to be outside the pandemic, what's our revenue base, customers are ultimately going to determine that. And we have to

adjust our operation, our scale, our network to where customers want to go and who those customers are. So, if business travel doesn't fully recover to the level because of Zoom technology, et cetera, or people combining trips, we need to adjust our business model to be able to do that.

If the leisure booking curve is suddenly shorter because people have learned the value of spontaneous trips, then, great, we need to be there to be able to do that. But what we first have to do, and I think we're in a pretty good position is stabilize the patient, right? We've reduced the cash burn to a manageable level – it's still \$1 billion a month, we have to be thoughtful about, but we need to focus on continuing to reduce that cash burn and we've got liquidity to be able to think forward rather than think day-to-day.

And I think you're starting to see the industry do a little bit more of that with things customer-oriented messages like, you know, eliminating change fees. It's going to be a simpler experience for the customer going forward and I think when you combine that with our load factor caps and our commitment to safety and health of our people and our customers, I think you can see Delta emerging back out of this with a lead and momentum to be able to expand that more.

Helane Becker

Analyst, Cowen and Company, LLC



One of the things I noticed in BTS data is that at the beginning of the year you had about 91,000 employees and mid-year it was closer to 51,000 employees, and that includes part-timers and full-time equivalent. So, was that – were you – and that was the most aggressive of all the airlines in terms of people reduction. Were you able to do that because of the – a voluntary time off or time out, or how were you able to adjust the workforce so rapidly? And then as things recover, and we think we'll be at 1 million passengers by the end of the year, and obviously we were almost there last weekend – I don't know what percentage of that is your – is the sort of Delta, maybe you can help us out there as we look at TSA. So I'm asking like five questions. So, I'll slow down because I don't always remember them either.

Paul A. Jacobson

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



Okay. Two – two or three of which I can answer, so, keep going.

Helane Becker

Analyst, Cowen and Company, LLC



Okay. So, we'll start with TSA data. Can I look at that like 900,000 and say, you know, Delta's 18% of that? Or is it difficult to calculate because, you know, you might – you're in New York and I don't know, people in New York aren't traveling as much as they may be traveling from Atlanta or California, LA or something like that, but – I mean, maybe not even in California given the fires.

Paul A. Jacobson

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



Right.

Helane Becker

Analyst, Cowen and Company, LLC



So, let's start there. Is there a way to figure that part out?

Paul A. Jacobson

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

A

You know, I don't think you can really get – parse through the data to find that. I think we – obviously, we'll spend a little bit more time talking about the quarter on our earnings call, but, I don't want to – not at liberty to kind of give out some of that data right now.

Helene Becker

Analyst, Cowen and Company, LLC

Q

Okay. That's fair enough. And then the second part of the question is on employment. How you were able to reduce your employee head count so rapidly.

Paul A. Jacobson

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

A

Sure. So, you know, the Delta culture is incredibly special. We've talked about that before and as a finance executive, it's hard to really go in and quantify the value of culture, but it's during extreme cases that culture really manifests itself. And I think when you look at 2020, the pace and the severity of what we saw in the post-COVID world, all the way to some of the social unrest that we're seeing right now, and – the Black Lives Matter Movement et cetera, you see the Delta people really rallying to the cause. And what we did early on is put a call-to-action out to – for people to volunteer to take unpaid leaves.

We would cover their benefits, but, they would agree to forgo their pay, and essentially drop off the employment rolls for anywhere from 30 days up to 12 months. We had over 45,000 employees sign up voluntarily for one of those packages. And everybody had their own reasons to do so, but a lot of it honestly was, we had just come off of a record profit-sharing payout just really six weeks before this crisis started, and people wanted to find a way to give back to the company.

And then when you look at that and say, okay, look, I understand how that works but it's short-term, it's flexible for the company, but we've obviously reached a point where we need a little bit more permanent structural change, we came out with the voluntary early retirement program in which we had over 17,000 employees choose to leave permanently. And there were incentives to do so, and medical coverage, et cetera, all of which structurally works for us because it defers some of that cash down the road, but we get the savings now.

So, it's been an incredible response by Delta people. There have been some hard days. I commented that it was August 31 – actually was July 31 because the first day of those retirements was August 1, and behind me is a pretty empty parking lot. It had more cars in it than I had seen since March, but it was people that were coming in that hadn't been to their desks since March, and they were walking in with boxes, cleaning out their desks and walking out. That was – it was pretty hard to watch, but at the same time, there's a special celebration for people. Nobody who retired pictured their retirement being under these circumstances, but it really was the last thing they could do to help the company and that's just really emblematic of the Delta culture and one of the ways in which I think we're going to get through this, shining a light on what that is.

Helene Becker

Analyst, Cowen and Company, LLC

Q

So, let's move away from this and talk about Delta and your vision for, you know, the next, I don't know, say three years, five years maybe too much, but let's pick the – sort of pick up the action. With the pandemic largely behind us, maybe a vaccine in place, let's say, first quarter – end of the first quarter, beginning of the second quarter of next year, talk to me about some of the things we talked at Investor Day about culture and diversity. You talked

just now a little bit about the Delta culture and how people do love the company. So, talk to me about what your vision is for the airline, say, three years on, when this is hopefully just a memory.

Paul A. Jacobson

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

Yeah. Well, I think a couple of things, Helane. One is, I think whether it's two years or three years, I think we need to brace ourselves for we're going to be in a rebuilding mode. Right? So, the questions about cost reduction and what can we do, there are limits to where – we go much deeper than what we're doing. We're cutting really hard into bone, and that's going to be more difficult to rebuild the airline when it comes time to do that.

But, I was listening to a podcast the other day and there was a stark reminder on there which is, vaccines don't end pandemics. Vaccinations do. And...

Helane Becker

Analyst, Cowen and Company, LLC

Good point.

Paul A. Jacobson

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

...I think what we have to remember is that there's going to be a tremendous supply chain and logistics effort to get people vaccinated. And in this environment, you already see polls with people saying, well, I'm not getting vaccinated and, others saying, well, everybody has to. It's going to take a while for those vaccinations to really get disseminated out globally. And so I think we should probably brace for that being a 6- to 12-month exercise, which means, we'll start to see some improvements in demand, but I think as offices and corporate offices start to reopen, we should start to see some pent-up demand for corporate travel, maybe as early as next spring.

But, I think as that is, that it's not going to be the same. It's probably not going to be for a while, the way it was, and there might be some permanent demand disruption on the corporate travel side of it. So, again, I just go back to, we've got to be nimble and we've got to be able to adjust, and the big dilemma facing every CFO right now in the business is, how do I minimize my cost base, but also make sure that the company can respond when the commercial side of the business says, we're ready to go, demand is there. And when consumers are ready to come back, we can't just say, well, you know, it's going to take us six months to ramp up.

So, everything is a trade-off between savings now and agility and flexibility later, which is why I think we're in a decent position. That's why I could see where a little bit more liquidity would be helpful to help bridge that gap, however long it's going to be, but I think, largely, the industry, with the help of the CARES Act and – who knows if there's going to be a CARES Act II, has proven – and the capital markets have proven resilient enough to be able to fund that rebuilding effort. But that's kind of where we're going to be for the next couple of years.

And like I said in the opening comments, the consumer is going to determine how big we are, where we fly and how we fly. We've just got to be able to respond to that and that's where I think the Delta culture can be superior.

Helane Becker

Analyst, Cowen and Company, LLC

Yeah. I think the whole idea of pent-up demand is – Ed talked about it on the last conference call, you have to have hope, it really brought home the fact that people who can't or who aren't traveling, you're kind of like that's

why you work. That's part of the whole working process. It's, I work for a vacation and I want to go someplace amazing, and you have to put all that stuff on hold. I think we have – yeah, we have some more time.

So, the other thing is, how are you thinking about the loyalty program and the value of the program in the sense that some of your most loyal customers are leisure, obviously, and maybe some of them are still traveling, but some are business and maybe they're not traveling. So, does that make the loyalty program less valuable, or is the revenue being made up on people using their credit cards? I mean, how should we be thinking about loyalty in an era where the high-value customer may not be traveling?

Paul A. Jacobson

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

A

Well, I think the loyalty program is showing a lot of its value right now. It's hard in the environment where passenger revenues are down as much as they are, but we always said that loyalty – we expect it to be more resilient through a downturn than the airline revenues. And the interesting thing about that is it's actually held up pretty well on the card spend, and there's two things about that. Number one, obviously, the downturn affected everything and everyone. There are people who are not spending what they were spending at restaurants and gas stations and stuff like that, but it's recovered quite a bit off of where the lows were at the beginning. But then, also if you look at some of American Express' disclosures on consumer spend, they talk a lot about how the Delta Card has held up and we've seen that it's held up against other portfolio cards and that tells me that people still are very much attracted to the brand and they're very much attracted to the idea of flying.

So, if I thought the pandemic was going to last three years and I wasn't really going to be able to fly anywhere, I would probably shift my spend away from accruing miles and put it on somewhere else. If I believe that this is going to pass, and that – like we were talking about, you want to get out of the house and you want to go on vacation and you want to get back to Europe and you feel like that's coming, either through a vaccine or through herd immunity, whatever it is, you're going to keep storing up miles now and that's what we see. So, customers, even though they're not flying, are still very attracted to the Delta brand, through the co-brand and the loyalty program, and that's actually a really, really encouraging sign.

Helene Becker

Analyst, Cowen and Company, LLC

Q

Yeah. I definitely hope to go to Rome for American Thanksgiving. That's a...

Paul A. Jacobson

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

A

We hope you do, too.

Helene Becker

Analyst, Cowen and Company, LLC

Q

That's my goal. And use my Delta Companion ticket, because somehow every year I forget I have it and it goes away. So, maybe I'm that kind of perfect customer that you like.

Paul A. Jacobson

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

A

I was going to say, remember, Helene, you're talking to the CFO who puts a different value on breakage than the commercial team does.

Helane Becker

Analyst, Cowen and Company, LLC

Q

Exactly. Totally. I get that. The – okay, so, the other question I had for you is with respect to culture and diversity. So, in this era, where, 40,000 people have taken early retirement or are on some form of leave, how do you think about protecting that? Because the culture or -obviously, people are upset because they may have made a choice that they wouldn't have made right now. I guess like we were talking at Investor Day, again, going back to December, when the world seemed so different – I mean, it could have been December of a 100 years ago – or maybe not 100 years, but 30 years ago, versus just a couple...

Paul A. Jacobson

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

A

We weren't as big 100 years ago.

Helane Becker

Analyst, Cowen and Company, LLC

Q

Well, and 100 years ago there was a whole another pandemic, right?

Paul A. Jacobson

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

A

Right.

Helane Becker

Analyst, Cowen and Company, LLC

Q

So, maybe that's a bad example. But – do I hear Jill laughing in the background?

Paul A. Jacobson

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

A

Yes.

Helane Becker

Analyst, Cowen and Company, LLC

Q

Do you worry about brain drain? Do you worry about the airline losing that mix of people that make it so diverse and that make Delta one of the best brands in the world? How should we think about that?

Paul A. Jacobson

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

A

Well, obviously, we lost a lot of experience, and you can really never replace that, but what we have seen is, I think, we – over the last, really, kind of five years, as we had kind of gotten back into some pretty strong hiring for our growth, as well as the brand investments that we were making et cetera, we managed to create a really good hybrid culture of people who have been here and seen it all through 9/11, through the credit crisis, through bankruptcy, with new fresh ideas about how to serve customers, the Digital Age and so on, that really created a good mix. And I think, the important thing is that we always remain grounded in the realities of our business. And we've gone through a lot of cycles, and we've gone through a lot of tough times, and tough times make tough people.

And the good news is that we are training a whole new generation of people. If you've been hired – if you were hired here in Delta since 2013, you've only known growth, you've only known strong revenue performance, you've only known debt pay-down, record profit-sharing levels, record profits, strong margins, strong free cash flow, et cetera, and you start to become numb to the historical realities of the business. Now, every single one of those people is getting trained in crisis management, and if there's one thing that I think Delta does extraordinarily well in the airline industry, [ph] it trains (28:13) a lot of good people for other industries as well and how to respond to that crisis because things do hit quickly.

And, we're creating new leaders every single day, responding to what we we're doing, and we're also doing that with an intentional eye towards improving the diversity of the company going forward. Because the experiences, the projects, the things that we give people today are really training the leaders of the company 15 years, 20 years from now. And that's where a lot of folks are being born now and are creating those leadership opportunities and we have to be intentional about that, because this is – as much as this is a generational crisis, it's also a generational opportunity to do the right thing and really institute a lot of long-term change.

Helane Becker

Analyst, Cowen and Company, LLC



Great. Got you. That's really very helpful. And I think we're just about out of time. So, I have to bid you adieu.

Paul A. Jacobson

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

Well, thank you. Thank you for the time.

Helane Becker

Analyst, Cowen and Company, LLC

Well, thank you. Thanks for participating.

Paul A. Jacobson

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

Sorry, we're not in-person, but if you feel the need to get on an airplane, you can come to Atlanta, we'll have you any time.

Helane Becker

Analyst, Cowen and Company, LLC

I will do that. I will make that a plan for – after you're out of the quiet period, or maybe before you go into the quiet period, I'll go down because I have friends there, too.

Paul A. Jacobson

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

Excellent. Well...

Helane Becker

Analyst, Cowen and Company, LLC

So, I'd like to spend time.

Paul A. Jacobson

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

...I know they'd love to see you.

Helane Becker

Analyst, Cowen and Company, LLC

Yeah, for sure. So, thanks, Paul and Jill, Wesley, and the team. I appreciate everything. Thank you.

Paul A. Jacobson

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

Thank you. Thanks.

Jill Sullivan Greer

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

Thanks, Helane.

Helane Becker

Analyst, Cowen and Company, LLC

Bye.

Paul A. Jacobson

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

Bye now.

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