

AudioEye, Inc. NasdaqCM:AEYE

FQ1 2019 Earnings Call Transcripts

Tuesday, May 14, 2019 8:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2019-			-FQ2 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.14)	(0.28)	NM	(0.10)	(0.31)	(0.01)
Revenue (mm)	2.01	1.99	▼ (1.00 %)	2.48	11.16	17.31

Currency: USD

Consensus as of May-06-2019 7:32 AM GMT



	CONSENSUS	ACTUAL	SURPRISE
FQ2 2018	-	-	-
FQ3 2018	(0.18)	(0.18)	NM
FQ4 2018	(0.11)	(0.16)	NM
FQ1 2019	(0.14)	(0.28)	NM

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Call Participants

EXECUTIVES

Carr Bettis

Executive Chairman

Todd A. Bankofier

Chief Executive Officer

ANALYSTS

Zachary Cummins

B. Riley FBR, Inc., Research Division

Presentation

Operator

Good afternoon, and welcome to AudioEye's First Quarter 2019 Earnings Conference Call. Joining us for today's call are AudioEye's Executive Chairman, Dr. Carr Bettis; and CEO, Mr. Todd Bankofier. Following their remarks, we'll open up the call for your questions. I would like to remind everyone that this call will be recorded and made available for replay via a link available in the Investor Relations section of the company's website at www.audioeye.com. Before I turn the call over to AudioEye's Executive Chairman, the company would like to remind all participants the statements made by AudioEye management during the course of this conference call that are not historical facts are considered to be forward-looking statements. Private Securities Litigation Reform Act of 1995 provides the safe harbor for such forward-looking statements. The words believe, expect, anticipate, estimate, will and other similar statements of expectation identify forward-looking statements. These are statements are predictions projections are statements about future events and are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could materially differ because of factors discussed in today's press release and the comments made during the conference call and in the Risk Factors section of our Annual Report on Form 10-K, our quarterly reports on Form 10-Q and our other reports and filings with the Securities and Exchange Commission. Participants on this call are cautioned not to place undue reliance on these forward-looking statements, which reflect management belief only as of the date hereof. AudioEye does not undertake any duty to update or correct any forward-looking statements. Now I would like to turn the call over to AudioEye's Executive Chairman, Dr. Carr Bettis. Sir, please proceed.

Carr Bettis

Executive Chairman

Thank you, operator. Welcome, everyone, and thank you for joining us today. After the market closed, we issued a press release announcing our results for the first quarter ended March 31, 2019. A copy of the press release is available in the Investors section of our website at AudioEye.com. As many of you dialing into they aware, AudioEye is a leading provider in SaaS-based digital content accessibility solutions. We are in the business of making websites and other digital content accessible for all individuals especially those individuals with disabilities. We pride ourselves in addressing a large range of accessibility issues that impact many people. With the AudioEye platform, the Ally platform as we call it, we do more than identify issues with web properties, we strive to fix, maintain and continuously monitor that. We also certify websites to demonstrate compliance with both the American with Disabilities Act, or ADA, and the latest Web Content Accessibility Guidelines, or WCAG 2.1. Because many of the remediation capabilities we provide are automated, our customers can more quickly gain compliance with accessibility standards regulations and laws. Coupled with manual testing and remediation by Subject Matter Experts, we provide our clients with the best solution to make their websites and digital content more accessible in keeping that way. Furthermore, for our commercial clients, we also give them the opportunity to get an ROI from their investment in and commitment to the enormous population of individuals with disabilities.

The first quarter was a strong start to the year that has us in good position to continue ramping our growth efforts throughout the balance of 2019. Operationally, we brought in some major new customers on the direct site, representing some of them are significant companies within the global Fortune 500. And on the indirect side, we continue to grow our channel partner relationships at a steady state -- steady rate. Long term, we feel the indirect channel represents the greatest potential book opportunity for our business, and we're continuing to focus our efforts on acquiring new partners in those channel as well as maximizing the efficacy of our existing partners in reselling the AudioEye solution to their respective customers. And while Q1 was still an all-around solid performance for our business and in line with our booking goals, we believe and had already begun to see that our best performances ahead of us both this year and beyond. In fact, the months of March and April when taken together were, by far, our largest 2 months of bookings in our company's history. As we witnessed in past years, we see the increases in our customer acquisition with a sequential quality growth as the year progresses with some potential seasonal softness in the third quarter with the fourth quarter always being our most productive period. In terms of new growth opportunities, our investment in new technologies such as PDF remediation and kiosk accessibility are really starting to germinate. Overall, our revenue renewal rate remained

consistently high, which for a SaaS business like ours shows more predictable growth.

And while we're growing internally, we're also witnessing massive growth in the digital accessibility industry as well. As we mentioned in our last call, one of the major initiatives we are focused on this year is in growing our public relations and marketing presence to take advantage of this new broader awareness of digital accessibility. Both the market opportunity and our strategy are validated by the so-called our new so-called solutions to our market. These solutions make unsubstantiated claims about their abilities and have added noise to the competitive landscape. For example, inexpensive toolbars, which we've seen increased recently actually don't deliver compliance. We will continue to invest to ensure our product offering is differentiated in real terms and in mind share. Quite simply, we want to ensure that we continue to be the industry leader, and we are actively engaged in the land grab that we expect to win. We're making investments to fuel growth. As we mentioned on prior calls, one of the many reasons why we're continuing to witness growth in awareness and adoption of our solutions is due to significant increase in legal cases that have sprung around the country fueling the digital ADA-related issues. We've reached out to community leaders who have the ability to enact change. As an example, we recently engaged former New York Governor David Paterson as a consultant to help evangelize our solution and to help share why working with AudioEye can serve the dual purpose of being the best defense against litigation as well as just the right thing to do. Governor Paterson is blind himself, so he can attest to the benefits of our solution, and we are proud to be working with the community leader like him to help the state of New York and others address these ongoing legal disputes.

Further to these efforts, global accessibility awareness day, or GAD, is May 16. This day is dedicated to raising awareness about digital accessibility and the importance of equal access for all. And our public relations efforts, we're using GAD to position AudioEye with media as the foremost authority in digital accessibility solutions. Governor Patterson and I are scheduled to speak with various news outlets in the New York area, in particular, on global accessibility awareness day. Positive coverage will not only further highlight the importance of this issue, it will continue to elevate our level of exposure and differentiate our brand.

With some of those bigger picture items handled, I'll now take a minute to go through our financial results for the first quarter ended March 31, 2019. In the first quarter of 2019, we generated revenues of \$1.99 million, reflecting an increase of 12% over the fourth quarter of 2018 and a 73% increase over the same period in the prior year. The increase in revenues was primarily due to the execution of the company's business plan which included the hiring operational sales team members, securing new and negotiated indirect channel partnerships, thereby increasing the volume of reselling of AudioEye products and services and a continued marketing focus on highly transactional industry verticals like retail, banking, automotive and e-commerce. At March 31, 2019, our monthly recurring revenues totaled \$686,000, which was a 12% increase from \$614,000 at December 31, 2018. Cash contract bookings, which is the contracted amount of money the customer commits to spend with us over an agreed amount of time, generally ranges from 12 months to up to 60 months. For the quarter, it totaled \$3.43 million, in line with our expectations. It was a slight decrease compared to \$3.50 million in the prior quarter due to the seasonally strong fourth quarter and an increase of 56% from \$2.2 million in the same period last year. This year-over-year increase in cash contract bookings was primarily due to execution of contract closings in the direct channel and securing a number of contracts in the indirect channel.

In a minute, Todd will give a more comprehensive overview of these 2 important sales channels for our business.

Next, gross profit in Q1 2019 was \$1.08 million or 54.5% of total revenues, which was a 4% increase from the \$1.04 million or 58% of revenues we reported in the fourth quarter of 2018 and a 93% increase from \$562,000 or 48.9% of revenues in the prior year period. The increase in gross profit was primarily due to increased sales volume and an increase in revenue renewal rate longer contract terms. Advancements in the company's technology also led to certain inefficiencies in the delivery of service. This sequential decrease in gross margin was primarily due to higher personnel cost associated with the ongoing ramping our operations as well as less software cost capitalized.

Total operating expenses in the first quarter were \$3.22 million, which was an increase of 57% from \$2.05 million in Q4 and an increase of 87% from \$1.72 million in the same year ago period. The increase in total operating expenses was

primarily due to stock-based compensation and increased professional expenses associated with our transition to new legal counsel as well as cost associated with our first NASDAQ 10-K filing and the filing of our first proxy statement in '19. Operating expenses also decreased due to capital investment in technology enhancements, marketing and key personnel. Net loss available to common stockholders for the first quarter of 2019 totaled \$2.15 million or negative \$0.28 per share. This compares to a net loss of \$1.44 million or negative \$0.19 per share in the prior quarter and a net loss of \$1.18 million or negative \$0.18 per share in the first quarter of last year. The greater net loss was primarily due to increase in total operating expenses previously mentioned occurring at a greater rate and the increase in revenues previously mentioned.

Moving to our outlook for 2019. As I mentioned earlier, we are off to a solid start to the year and overall, things are progressing in the direction we planned. While our indirect channel has taken a bit more time to develop, we've also had some quicker than expected growth in other areas, including our PDF remediation business which I know Todd is excited to talk about it and will expand on in a minute. At this time, you still feel confident we will be in the range of guidance we provided in December for both 2019 revenue and cash contract bookings but I'll delve a little deeper into what that looks like now.

As I mentioned previously, our indirect channel has been and will continue to be a key factor in the acceleration and the proliferation of the AudioEye technology in managed service. However, by its nature, the sales process is less predictable because we don't control the channel partner and we don't own any of these customers directly. Some of the delayed indirect channel contract implementations we experienced and talked about in Q1 have now been implemented in our current quarter, adding to the current quarter revenue. I do, however, want to bring to your attention the differences in contractual structure from some of our indirect channel partners recently. We signed 2 material indirect partner contracts where we do not receive the cash upfront but will receive cash as customers are implemented. The exciting part of these channel partners are contractually guaranteeing a minimum level of business total over the contract term. While this has the effect of delaying cash collections until their clients are implemented, it also shows results in building a growing backlog of cash contracts and 7 successive revenue in deferred revenue. And also I want to emphasize here there's still an upside in these partner relationships as they're setting just minimum commitments from these 2 partners. This structure also provides more visibility for us in the future revenue and cash. At March 31, the bookings in excess of revenue and deferred revenues we did \$9.15 million. Said differently, taking this number in the deferred revenue number together, the backlog of revenue in contract is \$12.04 million as of March 31, 2019. Offsetting the delayed contracting implementations in the indirect channel, we've had some very favorable outcomes and the growth of our direct business. Todd will elaborate on this further in a minute.

When providing our initial outlook for 2019, the PDF portion of our business was not a material consideration. The increase in adoption we are seeing here is a welcome surprise in an obviously nascent market, but it's something we are inching closely. Having this additional project-based work, which we're able to book and record as revenue in a fairly quick time frame, should provide diversification for our revenue streams while we work on expanding in our direct and indirect channels. To be clear, revenues and bookings for our PDF remediation business would not be recorded in the same manner as our subscription business. We expect to book and record PDF remediation revenues in the near term. Put another way, any bookings we record in this PDF remediation business in 2019, we expect to mostly recognize as revenues in this calendar year as well. Another accounting item I'd like to point out relates to our renewals. In the fourth quarter of this year, we expect to record our greatest top line results to date in terms of bookings beyond just the regular sequential growth we anticipate from new business. We saw this to a lesser degree in Q4 2018 but going forward as we continue to renew contracts in subsequent fourth quarter periods -- fourth quarter periods, we expect this uptick to become a more reliable and meaningful seasonal event. In short, we are focused on growth but not only this year but beyond. We are pleased with the expanding pipeline, the steady reliable growth in our direct channel, the promising ramp in our indirect channel, the rapid growth of our PDF remediation business and the strong renewals.

Finally, I'd like to provide an update on our CFO search before turning the call over to Todd. As many of you know, and I'm certainly excited about, our processes been ongoing, and we reported it in our last conference call. We've been adamant about getting the right person for this job. We wanted to hire someone for the company that had the requisite skills to help us implement the company's strategic plan, advance the company into the future, and with the experience and acumen to navigate the capital markets as well as the regulatory environment of being on NASDAQ-listed company.

With this in mind, we believe we found that person. I'm very pleased to be able to publicly welcome Sach Barot as AudioEye's new Chief Financial Officer. Sach comes to us from Dun & Bradstreet where he spent the better part of 2 decades and where he most recently served as CFO of Global Operations. Sach is a proven corporate financial executive and business leader, bringing 20 years of experience to the AudioEye team. He's a results-driven principled leader and exceptional record of hands-on financial, strategic and operational management, and we are confident his leadership will enable us to unlock financial and operational efficiencies that will not only drive business growth, but enhance our profitability metrics. We really are incredibly excited to have Sach onboard, and we're expecting great things from him. So with that, I'll turn the call over to CEO Todd Bankofier. Todd?

Todd A. Bankofier
Chief Executive Officer

Thanks, Carr. Hey, and I also want to provide my personal welcome to Sach as well. It is still very great to have him join the AudioEye team. We're really, really excited about it.

Let's start with the first quarter. The first quarter was a good start to what we think will be a great year for our business. We continue to secure contracts with some of the biggest companies in the world, including Global Fortune 500 companies as well as increasing our market reach across additional players in the content management system, or CMS industry, and we have specifically identified additional market opportunities where our accessibility solutions can make an immediate impact. As we've done historically on these calls, I'm going to orient my remarks around providing additional color on our 3 sources of customers success which are direct sales, indirect channel partnership sales and customer retention.

First, direct sales. We remain extremely excited about the list of everyday household names joining our customer list as well as being included in our fast-growing pipeline of potential customers. When companies realize the AudioEye values of speed to compliance, certification, always on accessibility and usability for a large set of users, the ROI and the value of our service wins over even the most sophisticated of buyers. We're also looking forward to being able to announce a number of new customers in the days and weeks ahead as AudioEye continue to stand out in the marketplace.

Before I get into the highlights of our indirect channel, I'd like to spend a few minutes on -- in discussing some of our newer opportunity, those being PDF remediation and kiosk. As Carr mentioned earlier, the PDF remediation business has really developed faster than we anticipated. We just realized -- and I'm sorry, we just finalized technology enhancements heading into the new year 2019, and we knew it was going to take some time to validate it in the marketplace. We really feel that this market is going to continue to grow during the calendar year, in California especially. New California law states that agencies within the state need to make their sites accessible which includes PDF documents residing on those websites. We now secured 5 contracts for PDF remediation, which we view as just a start. We saw the specific market on the horizon coming into this year, and we feel great about our technology, and it's already addressing the problem and looking forward to offering another leading-edge solution in addition to our current technology capability.

Now moving on to kiosk. We have some really exciting prospects for this new part of our business. We were still in the trial period with 2 major customers where we are utilizing our technology service to build out there kiosk platform environment. We are largely leveraging our core technology and applying it to kiosk. As part of our increased marketing and PR-related efforts Carr highlighted earlier, we planted demo of fully finished kiosk at a tradeshow later this month.

Next is our indirect channel partner sales. At March 31, 2019, we had 17 active partners in our channel partner program. And as of today, we now have 18. We recently announced our latest partnership with a company called Edlio. Edlio is a major CMS provider in the K-12 public, private and charter schools. With this partnership, Edlio's portfolio of more than 10,000 websites will now have the option to include the AudioEye managed service solution. This indirect channel partnership aims to ensure equal access to digital content for thousands of schools and school districts and countless end users who rely on the Edlio platform to access critical school information, programs and services. Just like Finalsight, our long-time productive channel partner in the education space, Edlio selected us because of our reputation and

delivery in support of advanced accessibility solution, our quality of customer service and our commitment to the education market.

Another recent partnership we're very excited about is with Mopro. Mopro is a leading website provider that creates and host websites for small businesses in about every industry. As its accessibility provider, AudioEye solution will be available to Mopro's more than 10,000 clients. We continue to aggressively procure more indirect channel partners including almost a dozen that we are currently in discussions with. We seek to engage with partner organizations who are committed to seeing their client sites digital content made accessible to those with disability. That is our commitment.

Moving to customer retention. At AudioEye, we are incredibly proud of the stickiness of our technology solution. We continue to retain almost all of the business we bring onto the platform. Customer stick with our service offering because they realize that after the first year of service, we have done exactly what we said we would do. We have kept our site accessible and compliant and have unlocked their digital content to a significant number of additional people, in particular, those with disability. Based on our records to date, our revenue renewal rates are as expected and remain in the mid-90s based on client renewal revenues and bookings. The primary reason for loss of customers is merger or acquisitions or indirect clients moving to another CMS platform. As Carr also mentioned earlier, we continue to have an exceedingly high revenue renewal rate. Revenue renewal retention rates continue to showcase the strength and value of our product to our customers. I would point out that Q4 has been and is expected to be our highest bookings and revenue renewal quarter. Going forward, we are remaining focused on executing against the plan we laid out for ourselves, which should allow us to continue accelerating sequential growth in a few key areas.

Looking into our current quarter, we're off to a very strong start. We will continue to strategically funnel financial resources and capital into areas that will allow us to field and our marketing leading position and further establish AudioEye as the leader in digital accessibility.

One final note, May 16 is Global Accessibility Awareness Day. In addition to our media hour reach, we will be hosting events in 4 markets across the country, bringing together those individuals who utilize digital content for work, education, travel and shopping. At AudioEye, we believe strongly that every website and platform built in digital code should be made fully accessible, so we are not leaving anyone behind in the ever-growing digital world. And with that, we're ready to open up the call for questions. Operator, please provide the appropriate instructions.

Question and Answer

Operator

[Operator Instructions]

The first question comes from the line of Zach Cummins with B. Riley FBR.

Zachary Cummins

B. Riley FBR, Inc., Research Division

You said that quarterly cash contract bookings were pretty well in line with expectations, and you kind of laid out how you expect this to go as we move throughout 2019. I mean, can you just provide a little more context around that? I mean it sounds like Q3's going to be a seasonally weaker quarter for you typically but then it's even more so of these bookings are now getting shifted into Q4 of this year. Am I thinking about that in the right way?

Carr Bettis

Executive Chairman

No. We've actually always expected Q4 to be the strongest quarter, it traditionally is. Some of our larger contracts are in that quarter for renewals, expect high renewals. So it's not really new for us in terms of thinking about the year. That's been consistent with our expectations all along that Q4 is particularly strong and we've all signs point to the continue very strong. On the other hand, we're having a great start of the second quarter as we said, and we expect to have a good week, expect to have a very good third quarter as well.

Zachary Cummins

B. Riley FBR, Inc., Research Division

Understood. And and in terms of the indirect channel, it sounds like a few of these projects are taking a little bit time longer to ramp up than you're expecting. I mean, in your mind, is there really anything that you can do from your end to solar the ramp of this project? Or is that more so just kind of going along with the customer's time line and when they're planning on rolling out these initiatives?

Carr Bettis

Executive Chairman

We have as I think Todd may have mentioned in the last quarterly call, we've engaged both time and marketing who's working exclusively on this channel, working with our partners to making a strong commitment to the channel, encourage them and help them. And Todd can talk about this more, but we're getting very, very smart about the way with which you engage these partners. I mentioned a couple of the contracts where big partners would have made the financial commitment in cash contracts, but they will commit to certain levels of activity going forward. It certainly doesn't maximize the opportunity for us but at least it shows there strong commitment to ensuring that they're to develop and roll out their product to their customers, to paying customers. So we're continuing to get smarter, more disappointed around who we take on as partners, and we got an improving program in our operations for helping getting them going and that's maximizing the potential for them as well. Todd, is there anything you want to add?

Todd A. Bankofier

Chief Executive Officer

Well, I think it's important that we state the fact that we really are betting close to a dozen new potential partners right now and the process is more regimented. We're seeking individual partners that obviously have a large customer base, but we're also seeking customers that are seeing this issue as something that really believe is important for their customer base. So that is part of the vetting process. We make sure that we are signing up partners that are passionate about the issue of digital accessibility as well as see the revenue capacity and that was available for this channel as well. So as we go through this, we're making sure that we bring on the best partners. And lastly, I'll just say as it relates to the marketing person, they are spending a lot more time with these individuals, and we see through these partners maturing more in their sales process. And as a result of that, we'll see continued growth.

Zachary Cummins

B. Riley FBR, Inc., Research Division

Understood. And then on the operating expense side, it was a pretty big step up here in Q1. It sounds like maybe there's a lot of almost onetime expense in nature type of items. But is your expected hiring trajectory, do you anticipate that will still ramp throughout 2019 as you build out your implementation teams and your sales and marketing team from this point?

Carr Bettis

Executive Chairman

There's no doubt that we are really expecting growth there, Zach. We expect need to add people and not wait to be too late until we see signs we see in our pipeline and how we see the landscape unfolding before us. So you're right though, there was significant onetime extraordinary cost that occurred in the first quarter out of the norm as well. But you should expect to see us continue to invest in both marketing, PR and employees will help us to deliver with growth we're anticipating in and working towards.

Zachary Cummins

B. Riley FBR, Inc., Research Division

Understood. And final question, I mean you mentioned that there was an increasing number of providers that were popping up within the space. Even though they aren't providing the necessary accessibility that is sought out by customers. Is it still causing any sort of disruption to your potential to get in the door and then when some of these deals in a more timely fashion?

Carr Bettis

Executive Chairman

I think it's interesting. All of those to me right at the moment validate the importance growing behind the space. They have such a different value proposition. I think some of those try to copy our message that's going to last the many of us getting the door. They just are not in the position yet any of these competitors that we see to deliver what we deliver in a way that we do it and the nature of the offering that we have still differentiated. I do think as I said we will continue to make sure we invest to differentiate that because removing nice from the conversation and making sure that AudioEye position is clear. We feel like we can continue to do that very well.

Operator

[Operator Instructions] At this time, this concludes our question-and-answer session. And I'll turn the call back over to Dr. Bettis for his closing remarks.

Carr Bettis

Executive Chairman

Thank you, everyone, for joining us today. I especially want to thank our employees, our partners in our investors for their continued support, and we're looking forward to updating you on our next call. Have a good evening.

Operator Before we conclude today's call, I would like to remind everyone that the recording of today's call will be link available in the section of the website. Thank you for joining us today for AudioEye's First Quarter 2019 Earnings Conference Call. You may now disconnect.

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