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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Burberry Group's second half trading update. My name is Stephie, and I will be your coordinator for today's conference.

For the duration of the call, you will be on listen-only. However, at the end of the call, you will have the opportunity to ask questions. (Operator Instructions).

I am now handing over to Stacey Cartwright, EVP, Chief Financial Officer, to begin today's conference.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Good morning, ladies and gentlemen, and welcome to Burberry's second half trading update call. With me this morning is Fay Dodds, our Investor Relations Director. As this is a trading update, we're going to comment this morning on sales trends, and will provide more detailed information on profit and cash at our preliminary results on May 26.

So for the second half, total revenue was GBP707 million. That's up 7% on a reported basis, and up 6% at constant exchange rates. Retail sales accounted for over 60% of revenue in the half, increased by 15% on an underlying basis. Within that, comparable store sales were up 10%.

By product, non-apparel and outerwear performed particularly well. By region, Hong Kong, the UK and the United Arab Emirates were the standout performers. Asia Pacific and Europe continued to post double-digit growth, and the Americas improved, especially in this fourth quarter.

Globally, the strong performance of Q3, which saw 10% comp growth continued into Q4, with 11% comp growth, February and March particularly strong. This was especially pleasing as it was high quality growth, with both increased gross margin, and average selling prices. We



introduced an iconic pricing policy ensuring our core lines are never marked down. Growth was skewed to full price sell-through rather than markdowns. Growth was also skewed to mainline stores rather than outlets because of our significantly lower inventory levels, and we pulled deliveries forward to meet consumer demand.

Now as a result of that, we knew we would have a period in April and May when we would be missing new or fresh ranges in our stores, so we acted quickly in late January to develop a small capsule of around 30 styles to both fill this gap, and react to our strong business trend. This we called April Showers. The collection was designed, merchandized, with production orders placed within two to three weeks. It was bought centrally, and is exclusive to our own retail stores and e-commerce sites, and it was then produced and delivered within around eight to nine weeks.

It's in or going into our stores as we speak, and is being supported by a digital marketing campaign, with all of the creative work done internally. Not only should this help momentum in the first quarter of this new financial year, but it's also another example of how our cross functional teams can now react very quickly to changing market conditions.

Next to Wholesale, where revenue in the second half was also better than anticipated at down 6% on an underlying basis compared to previous guidance of down 10% to 12%. This equates to around a GBP10 million improvement, of which over half comes from higher in-season orders reflecting the pickup in consumer demand, and the balance comes from lower cancellations as we delivered on time.

As we said in the statement, excluding our own actions and the Spanish market, demand for the global collection was up mid single digit, led by Emerging markets, the Americas and Travel retail.

Licensing revenue declined by 6% in the half on an underlying basis, in line with guidance, and in the second half, we've also made further progress on our five key strategic themes.

So under leverage the franchise, our Autumn/Winter womenswear runway show generated more momentum for the brand, with critical acclaim not only for the collection, but also for our innovative use of digital media; for example, live streaming the show in 3D in five locations around the world and offering selected products for immediate purchase online.

Under non-apparel development, this division now accounts for nearly 36% of Retail/Wholesale revenue, up from 33% a year ago. Shoes and soft accessories led the charge in our retail stores in the second half. And under retail-led growth, we opened a net nine stores in the second half, including new locations in Paris and Venice, while the Burberry Experience sales and service program was rolled out further around the world.

In under-penetrated markets, our franchise partner opened a net 13 stores in China over the last 12 months, giving us 50 in total now. We received government approval for our joint venture in India, and we've also opened an office in Sao Paolo.

Under operational excellence, the SAP deployment in Korea and other parts of Asia, as well as the euro hub, completes this month, after which around 90% of our stores will be on SAP with all of the benefits that this will bring over time.

And finally, the restructuring of our Spanish operations, which we announced in February, is on track, and we will give you more details in May. Just to remind you that as we said in February, we expect higher trading losses from Spain in the transitional year '10/'11 than in the year just finished, as we run that local infrastructure down.

In summary for '09/'10, with a stronger anticipated finish to the year, we're now expecting adjusted profit before tax to be slightly above current market consensus, and to be at record levels, despite challenging conditions.

The Retail Wholesale gross margin will be up year-on-year, and operating expenses as a percentage of sales will be in the high 40s as previously guided.

So looking forward to the new financial year '10/'11, I'd just like to make a few points. Firstly, we do remain cautious in our planning as visibility on the pace and level of the global economic recovery is still low.

Secondly, we have this morning given specific guidance, firstly, around a 10% increase in full year average retail selling space, albeit second half weighted; first half underlying wholesale revenue to be up high teens excluding Spain. If you include Spain, it's still up around 10%. And underlying licensing down 5% to 10% in the full year, including the impact of terminating the Japanese leather goods license as we clear the way for our non-apparel JV to test the imported global collection in that market.



And finally, you will hear from us during the course of the year how we intend to take the opportunity in '10/'11 to increase our investment further in the business and protect and enhance the brand, be it in new regions such as India; new initiatives, especially customer service; new channels such as digital commerce; increased capital expenditure especially on more store openings and flagship renovations; while further rationalizing activities that are not brand-enhancing, albeit they may be profitable.

So with that overview, let me now take your questions.

QUESTION AND ANSWER

Operator

Thank you. (Operator Instructions). The first question comes from the line of Allegra Perry from Nomura. Please go ahead.

Allegra Perry - Nomura International Plc - Analyst

Hi, good morning. It's Allegra Perry.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Hi, Allegra.

Allegra Perry - Nomura International Plc - Analyst

Hi. I have three questions, please, all within the Retail division. You mentioned that average selling price is up. Can you give us a sense for how much price versus mix did in the quarter? Were prices raised in fact for the spring/summer collection?

Secondly, in terms of regional trends, could you give us a little bit more color on the Americas; perhaps how much of an improvement you saw between the third quarter and the fourth quarter, and perhaps what the key drivers were behind that?

And lastly, in terms of product categories, I think the strength called out was in shoes. It's probably the most bullish you've been I think on this category. Is there anything new in the collection? Is there an increase in SKUs? Could you just give us a sense for what's driven that performance, please?

Thank you.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Okay. Well, I'll pick up the first one. I might leave Fay to do the second, and we'll decide between us the third.

In terms of price versus mix, which I think was your first question in terms of average selling price, we're driving up the average unit retail, i.e., the average selling price. But it's less about putting price increases through; it's more about added value, Allegra, and finding innovative ways to add detail to product, which then commands the higher price because it has that price value piece within it. So that's more where I would go in terms of the second -- what's been happening in this fourth quarter.

In terms of the Americas, there was a noticeable uplift in the fourth quarter.

Fay Dodds - Burberry Group Plc - IR Director



I think we said at the third quarter, it was going to be low single digits, go on to mid single digits for the half as a whole, so you can do your own sums. And I think what we saw in February and March in particular was a big increase in footfall. It appeared to us, and you've seen the same from the US department stores, that the US luxury consumer is coming back.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

And then the last piece, I think you were asking specifically on shoes, Allegra. We're just delighted with the design content that's gone into the shoe collection and the accolades that we're getting from a PR perspective. Runway Shoes selling through, but then all the way down to ballerinas, pumps, wellies; you name it. The full range has come together really, really nicely.

We think we had a little bit of a hiccup just after the recession really hit, because clearly, we were still relatively small-scale, and a number of the wholesale accounts were reining back on the smaller guys, which included us. Now that we've been able to demonstrate the design content and value within the shoe collection, that's rebounding quite nicely.

Allegra Perry - Nomura International Plc - Analyst

Great. Can I just ask a follow-up on that? How big is that category now as a percent of sales, and are you on track for your medium term goal of reaching 10%?

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Yes. No, the 10% is absolutely still there. It's low single digits at the moment.

Allegra Perry - Nomura International Plc - Analyst

Great, thank you very much.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Thanks.

Operator

Thank you. The next question comes through from the line of Erwan Rambourg from HSBC. Please go ahead.

Erwan Rambourg - HSBC Global Research - Analyst

Yes. Hi, good morning. Actually, it's Erwan Rambourg from HSBC. Good morning, again. I was wondering if you could firstly focus on Spain, giving us roughly the split between Retail and Wholesale and the split between local and international collection for the year that just finished.

Also, if you can mention what the price differential is between the local collection and the international collection, and how easy you think it's going to be to upgrade consumers up to the international collection.

Secondly, I wanted to come back on comps. Wondering if you can mention a potential split between what you were mentioning to Allegra about price versus traffic versus conversion.

And then I had a third very short question on Turkey, because you seem to be one of the only companies mentioning Turkey, so I was wondering if there was anything specific that you saw that others didn't see; what the situation was for you in that market.

Thank you.



Stacey Cartwright - Burberry Group Plc - EVP and CFO

Okay, so all the way back, Erwan; probably about 10 questions in there. You just disguised them as three.

I think the first question was around Spain, the local and the international collection. It's almost all local collection. The only place you found the international collection until now has been in the Madrid, Barcelona and Puerto Banus stores, but it's been mixed in with local collection as well. So 90%-odd of what you see in Spain is that local collection.

Fay Dodds - Burberry Group Plc - IR Director

You also asked about the split in Spain between Retail and Wholesale, and if you look for the full year, Retail is just over half. And remember, that's the concessions in ECI for ladieswear, non-apparel and childrenswear, plus the handful of standalone stores we have.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

And then you asked about the price differential. The price differential, it's not as simple as saying it's X%, because it depends on the product category. The pricing on the menswear side is actually much closer to the global collection. The non-apparel, obviously, is the global collection, but there is a slightly lower price point in Spain, but it's not that far off.

The bigger difference is on womenswear where there can be around a 20% price differential but, clearly, it's not like-for-like in that it's the ladies' white shirt which is of a different level, different positioning on the domestic collection versus the global collection.

And in terms of the upgrading to global, the key thing that we're going through right now is what is the appropriate distribution for the global collection in Spain. And that's why we're not yet ready to give you more details. We'll be giving you more details in May as to what that looks like.

Erwan Rambourg - HSBC Global Research - Analyst

Right

Then you were asking on comps; further breakdown in terms of what's being driven by price, what's being driven by traffic, what's being driven by conversion. I'd say all three have been additive. I'm not sure we want to pull them out separately, but they've all added a reasonable weight to that 11% like-for-like sales growth for the fourth quarter.

And then the last question I think was on Turkey. Well, yes, the Burberry brand plays particularly strongly in Turkey. We've got a handful of franchised stores in that region now, and the business continues to do extremely well, so --

Fay Dodds - Burberry Group Plc - IR Director

It's very strong, for example, in childrenswear.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Yes.

Fay Dodds - Burberry Group Plc - IR Director

And they've -- big believers in the non-apparel story too.

Erwan Rambourg - HSBC Global Research - Analyst

Okay, excellent. Thank you very much.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Thanks, Erwan.

Operator

Thank you. The next question comes through from the line of John Guy from RBS. Please go ahead.

John Guy - RBS - Analyst

Oh, yes. Good morning. Just wondering if you've seen any disruption so far to sales or deliveries with regards to Iceland volcanoes and so on. Is there any contingency? I appreciate that it looks like air space is going to be open within the next day or so, but just wondering if you've seen any disruption, mainly with regards to deliveries?

And also with regards to -- and I know you're going to talk about the gross margin and OpEx on the 26th, so you need to have something back for 26th, but is it fair to say that given the very strong Retail performance that you've had, the OpEx as a percentage of sales will be higher than the first half but effectively offset by the better gross margin?

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Okay. First of all on the volcano issue, nothing significant to report as yet. We're very -- again, all of the investment we put in on the supply chain and distribution over the course of the last couple of years stands us in very good stead. We have our regional hubs operational now in the Americas for the Americas market, in Asia for the Asian market, and in the North of England for the European market, but a lot of that is serviced by road or by sea. So to be honest, we're absolutely on top of this. We're reviewing it continually, but we're not seeing a particular impact as we speak.

Then I think your next question was around gross margin and OpEx. Well, we have put a lot of flags down around how pleased we were with full price sell-through in the fourth quarter, so that clearly is beneficial to gross margin. The OpEx number, our guidance was for OpEx for the second half in the high 40s, and I think we'd suggest that people leave it there.

Fay Dodds - Burberry Group Plc - IR Director

Yes, I think for the full year, it will still be high 40s.

John Guy - RBS - Analyst

Okay, great. Thank you both very much.

Operator

Thank you. The next question comes through from the line of Katharine Wynne from Investec. Please go ahead.

Katharine Wynne - Investec Securities UK - Analyst

Oh, yes. Good morning. I've got a --

Stacey Cartwright - Burberry Group Plc - EVP and CFO



Hi, Katharine.

Katharine Wynne - Investec Securities UK - Analyst

I've got a couple of questions. Firstly, on the capsule collection that you referred to to fill in your possible availability, is that something you'll be looking to do more of going forward? And does that have any implications for your inventory management and the shape of working capital?

And then the second question was with regard to the further plans for tidying up around the place on distribution, are we to assume that there will be some sort of continuing exceptional costs attached to that going forward, or are we -- have we basically seen the bulk of exceptional charges, barring major unplanned developments?

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Yes, okay. Well, the first thing in terms of the capsule collection, what was so pleasing about it was that the team were able to respond and react according [to the] business. So as I said in the piece earlier, literally, it was designed and conceived in January, and it's hitting the stores right now. So we have dramatically shortened the normal lead time for getting product into our stores.

What it shows us is that this is what the team are capable of, and whilst we go through the normal process in terms of opening up new markets, we'll be opening up spring/summer '11 very shortly, we know that we have this flexibility at our disposal should we need it. So watch this space.

Fay Dodds - Burberry Group Plc - IR Director

And it's also worth saying, it is part of our continuing strategy of getting newness into the stores almost on a monthly basis so that the customer who is coming in every month has got something new to look at.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

And then in terms of inventory management, just bear in mind, this is a relatively small capsule. It's not going to form the bulk of sales in April and May, but what it is doing is providing that halo of newness when customers come into the stores. So it's not huge numbers in itself and, therefore, doesn't have a major impact on inventory per se, but it does just show how flexible we can be as inventory levels are run tighter than they have been previously.

And then I think your next question was around tidying up and will it -- will we have exceptional costs? The exceptional costs that we flagged are around tidying up or complete transformation, depending on which way you want to term it, in Spain.

But anything else, I mean, we've talked about continuing to clean up in Europe in specialty accounts. Those aren't exceptional costs, that's just part of us, if you like, walking away from certain profitable revenue that isn't appropriate for the positioning of the global brand. So that's more about making sure that we get the right level of growth from those areas of the business that we do want to grow that enables us to afford to walk away from some of those less brand-enhancing areas.

Katharine Wynne - Investec Securities UK - Analyst

Great, thank you. That's clear.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Thanks, Katharine.

Operator



Thank you. The next question comes through from the line of Dennis Weber from Evolution Securities. Please go ahead.

Dennis Weber - Evolution Securities - Analyst

Yes, good morning.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Hi, Dennis.

Dennis Weber - Evolution Securities - Analyst

Hi. I've got three questions, please. Firstly, looking at the pyramid structure, could you just talk us through the different parts of the pyramid where you see best growth, and whether that has changed at all over the last three months, or three to six months?

Secondly, on your outlook for licensing, you're talking about a 5% to 10% decline for 2011. Can you just elaborate on that? With a relatively easy comp, I guess, why do you see those further declines?

And then, also on your statement, you're talking about consensus levels of pretax profits and that those are likely to be exceeded. Could you just say where you see consensus levels at the moment?

Thank you.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Okay. I think the first question then, Dennis, was the pyramid and where are we seeing the best growth. Well, the nice thing is that we're seeing it right across Prorsum, London and Brit. And just to remind you, so Prorsum is the runway collection at the top, London is the wear to work in the middle of the pyramid, and then Brit is the casual, more temporary piece at the base of the pyramid.

All three areas are growing very nicely. Clearly, Prorsum was somewhat more impacted during the downturn. As shoppers are back, we're seeing nice growth in Prorsum. We've had this benefit now of the clearer delineation between London and Brit, i.e., the wear to work and the lifestyle because of the labeling of Burberry London and Burberry Brit, and that's provided nice growth for both.

I'll probably call out some of the contemporary lines within Brit like Denim as being particularly strong performers, whilst outerwear, of course, has performed strongly right up and down the pyramid.

I think your next piece was on licensing, Dennis, and you just need to bear in mind that within licensing, we've got the older Japanese revenues, and then the global licenses besides. And whilst the global licenses continue to grow nicely, the Japanese piece you need to split it into two. First of all, the apparel license revenue, which as we articulated at the last set of results, we have renegotiated the apparel license in Japan, which does mean that actually we've got flat revenues into '10/'11, and then another pickup in licensing revenues in '11/'12.

Remember, you had a significant pickup of about GBP4 million in the '09/'10 year. So if you like, we've stepped up this year, we'll be flat into next year, and then another step up in the following year.

Contrast that with the non-apparel licenses which make up the other third of the Japanese license revenue, those non-apparel license revenues potentially get in the way of our non-apparel joint venture, which will be distributing the global product. And, therefore, what we are announcing essentially today is that local handbag license is being terminated so that we have a clear run for the global non-apparel business to build over these next couple of years.

So that's really one of the major factors about why licensing is going backwards next year, as well as finally terminating all of the menswear product licenses that used to be in existence. We've been winding them down over the last couple of years. Finally, we have a collection for menswear that is completely clean. It is done out of the main headquarters, design, product development, everything, and we no longer have local product licenses to confuse the consumer.



And then the final one I think was on consensus. GBP199 million of PBT is what we see, and we're saying we'll be slightly ahead of that.

Dennis Weber - Evolution Securities - Analyst

Thank you very much.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Thanks, Dennis.

Operator

Thank you. Ladies and gentlemen, we've got no further questions in the queue. (Operator Instructions). We've got a question from the line of Warwick Okines from Deutsche Bank. Please go ahead.

Warwick Okines - Deutsche Bank Securities - Analyst

Yes, good morning. Just two questions actually, please. Could you just tell us how many franchise stores you expect will be opened in China in financial year '11?

And secondly, the contribution to sales from retail space I think was only 2% in Q4. Clearly, there's some store closures that make that a net number. Could you just maybe talk around the movements, because that is a slowdown since Q3?

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Yes, I'll talk to the second one first, actually, because another factor that's in the Q4 numbers is that, given our much stronger inventory position, we haven't done what we've done in previous years which is run internal friends and family sample sales in the fourth quarter, and that was worth a couple of million quid at least, if not a little bit more. So bluntly, again, this is all down to the quality of the revenue growth. It doesn't include some old sample sales that we used to do that have now been turned off.

Fay Dodds - Burberry Group Plc - IR Director

In terms of Chinese openings, we opened about a net 13 this year going from 37 to 50. And I think we're planning probably to add another 10 to 15 in the coming year.

Warwick Okines - Deutsche Bank Securities - Analyst

Thanks. And could I just come back on that space comment you made, Stacey? Are you saying that the friends and family sample sales would not have fallen into the like-for-like number previously?

Stacey Cartwright - Burberry Group Plc - EVP and CFO

No, they weren't.

Warwick Okines - Deutsche Bank Securities - Analyst

Great. Okay, thanks very much.



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Stacey Cartwright - Burberry Group Plc - EVP and CFO

Okay.

Operator

Thank you. The next question comes through from the line of Rogerio Fujimori from Credit Suisse. Please go ahead.

Rogerio Fujimori - Credit Suisse, Europe - Analyst

Oh, hello; two quick questions, please. Could you just comment on the [initial] performance of your standalone Burberry London and Burberry Brit stores in New York, please?

And the second one is basically the sequential trends in UK and Korea which obviously have been very strong in the last fiscal year, and how do you see them performing? Obviously, [like being] tough comps, but how do you see the underlying trends in these two markets?

Thanks.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Okay. In terms of the New York stores, that's Brit and London, we're really pleased with how they've started. You'll remember that we announced them as, if you like, prototype type stores. As much as anything else, they were for the benefit of our wholesale customers. So every time a wholesale customer comes into our showroom at 444 Madison Avenue, they can't get in the front door without having been diverted to either the Brit or the London stores, or preferably both.

So the stores are beautiful. If you haven't already visited them, please do. They're doing very nicely from a trading perspective, and they're absolutely fulfilling that role of being prototypes for those wholesale accounts as to what we would like the Burberry Brit and the Burberry London corners to look like within their stores.

The second question was on UK and Korea. Clearly, they come off very strong historical bases, but they both still continue to perform very nicely, so --

Rogerio Fujimori - Credit Suisse, Europe - Analyst

Thank you.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Okay.

Operator

Thank you. We've got a follow up question from the line of Allegra Perry from Nomura. Please go ahead.

Allegra Perry - Nomura International Plc - Analyst

Yes, hi; just two quick ones from me, firstly, on the outlet stores. You mentioned, obviously, that you are doing more business out of your mainline stores now. Can you give us perhaps an update on your planned closures here and how big this channel now represents as a percent of sales versus last year?



And then secondly, just also a quick update if possible on your e-commerce sales, please.

Thank you.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Okay. In terms of outlet stores, what we've talked about is directionally having fewer larger outlets in the right locations, and that is part of the transformation that we will be doing over the course of the next year or two. But I don't want to talk about specific potential closures because you'll be aware, I don't really want locations published if we haven't talked internally to people about what they might be.

In terms of outlets as a percentage of sales, we've always talked about outlets -- roughly there being maybe a 70/30 split. We are quite a bit less than 30% of sales out of outlets in the second half.

And then, e-commerce growing very nicely in percentage terms, but off a very small base.

Fay Dodds - Burberry Group Plc - IR Director

60%, yes.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Yes, but off a very small base. So you need to let us get a little bit further advanced before we'll start to pull it out and quantify, but it's growing very, very strongly.

Allegra Perry - Nomura International Plc - Analyst

Great. Thank you very much.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Thanks, Allegra.

Operator

Thank you. Ladies and gentlemen, we've got no further questions in queue, so I'll hand you back to the host to conclude today's conference.

Stacey Cartwright - Burberry Group Plc - EVP and CFO

Okay. So in conclusion, as Angela said in her quote this morning, we had a strong finish to '09/'10. And as we look forward to '10/'11, we do remain confident that our strategies will continue to build momentum in the business.

So thank you again for your attention. We're looking forward to speaking with you on May 26, which is when we'll be announcing our preliminary results.

Thanks very much.

Operator

Thank you for joining today's call. You may now replace your handsets.



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