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PRESENTATION

David Egon Strauss - *Barclays Bank PLC, Research Division - Research Analyst*

Thanks, everyone. Next up on the A&D Track is Raytheon Technologies, and we're very happy to have Greg Hayes back. Greg has been a long supporter of the Barclays conference. Greg is, obviously, Chairman and CEO of Raytheon Technologies. And Greg has some opening remarks, and then we'll get into Q&A. So Greg, thank you.

Gregory J. Hayes - *Raytheon Technologies Corporation - Chairman, President & CEO*

Thanks, David, and thanks for inviting us. It's always nice to get back to Miami in the middle of winter. Just before I get into anything else, so just forward-looking statements, just a reminder this is being webcast. There will be forward-looking statements, subject, of course, to risks and uncertainties, and you can read it all in our 10-K, and that makes the lawyers very happy when I start every presentation with that.

So enough said, probably not a lot to say on 2021. It was a good year for us. I think, obviously, the markets came back a little bit faster on the commercial side than what we had anticipated. Really good earnings, cash flow of \$5 billion, again, all exceeding our expectations from early in 2021. And again, as we start into 2022, I would tell you, we're optimistic we're going to continue to see good, solid both top line and bottom line growth as well as cash flow.

We're forecasting, we think around \$6 billion of free cash flow this year. It's up 20%. It is, of course, assuming that the tax law, which requires us to defer and amortize R&D, it's changed sometime this year, we'll see how that progresses.

As far as the top line, yes, I think our guidance is \$68.5 billion to \$69.5 billion. That's 7% to 9% organic growth. That is a pretty solid year. Obviously, a lot better on the commercial aero side than on the defense side. But still solid growth across the entire portfolio, and we should see margin expansion as well.

Share buyback for the year, about \$2.5 billion, that's after \$2.3 billion next year. Most importantly, I go back to our investor conference a year ago in May, where we made some commitments around 2025, where we see free cash flow growing from \$5 billion last year to \$6 billion up to \$10 billion by 2025. And importantly, returning to about \$20 billion of capital to shareholders. We're well on our way. Dividend is a \$3 billion a year return on top of the share buyback. So fully expect that you'll see dividends continue to grow as earnings grow. We had good solid earnings growth this year.

And despite all of the challenges out there, we still expect a good first quarter not without its drama, obviously, because of supply chain, but we think we're off to a good start this year and look forward to the questions.

So David?

QUESTIONS AND ANSWERS

David Egon Strauss - Barclays Bank PLC, Research Division - Research Analyst

All right. Thanks, Greg. So just a quick reminder. QR code on your table to answer questions, if you could participate in that, that would be great. Same thing online, you can participate.

So let's start with the most recent news, you announced. You had the leadership announcement last week. Can you talk about why this role, a new role was created, why you announced it now? And what does this mean in terms of succession planning?

Gregory J. Hayes - Raytheon Technologies Corporation - Chairman, President & CEO

So a week ago today -- or actually, we could go yesterday, we announced Chris Calio as the new Chief Operating Officer of RTX. Chris is moving up from his position as President of Pratt & Whitney.

In this role, I've asked Chris to focus on a number of initiatives, mostly around operational excellence, digitization and the revenue synergy pipeline. Chris has been in aerospace for well over 20 years. Many of you have known him from his days at Pratt. He has been an incredible leader through these last 2 years, making some very tough decisions driving some significant cost reduction.

And talking to the Board, we just felt that it was time to -- as we're thinking about succession planning, leadership development, this was a good time to get Chris a broader scope of responsibilities. So the 4 business units will report to him as well as our Engineering and Technology group, our Digital and Enterprise Services and our Operations group.

And the idea here is to focus on all of those commitments that we made a year ago around operational excellence, around the investments in digital, just as importantly, the ability to drive revenue synergies across the 4 businesses. So nothing more to it than just a great development opportunity. And I think Chris is absolutely the right person to deal with it.

David Egon Strauss - Barclays Bank PLC, Research Division - Research Analyst

So you touched on a little bit of this in your opening comments, but your key priorities for this year, 2022, and then just broadly, how you're thinking about those 2025 targets that you gave in May of last year. Obviously, a little bit of time has passed, how you're kind of stacking those targets that you put out?

Gregory J. Hayes - Raytheon Technologies Corporation - Chairman, President & CEO

So as we think about priorities for RTX, I think, again, it will be the same thing we talked about last year and really for the last 2 years, our #1 priority is keeping our employees safe. And I think we have done a pretty good job given all the challenges of COVID. It remains a challenge for us, I would tell you. Two weeks ago, we had about 1,400 people out with COVID. Two weeks before that, we had 2,400 people this year -- this week. I suspect when we look out on Friday, it will be less than 500 people. So we're doing a good job but that is always going to be a first priority for us.

Second is focus on getting -- meeting our customer commitments, right? That is making sure we deliver on time with 100% perfect quality and delivering value to our customers. That includes not just products but also some of the development work that we're doing. Of course, working with our supply chain to make sure that they are prepared in dealing with this ramp that we're going to see as we return to growth on the commercial aerospace side over the next couple of years. So a lot to do there. We talk about operational excellence. We talk about supply chain. Those are the real big focuses.

At the same time, we're focused on making sure we meet our commitments to our investors. So we go back to the 2025 comments, David. We take those very seriously. I think as you'll see, we're not going to come off any of those commitments that we made for any of the 4 businesses. I would

tell you, highly confident we're going to see a return of commercial aerospace traffic here in '22 and '23 such that we think by the end of next year, we'll be back to 2019 levels.

So all that being said, I think the fundamentals are there to hit those targets in terms of top line growth, bottom line growth and if you think about it, again, we should grow double-digit earnings for the next 4 years. And that's all part of that 2025 commitment.

David Egon Strauss - *Barclays Bank PLC, Research Division - Research Analyst*

Supply chain, everyone wants to talk about the supply chain. You've talked about it a little bit, what you're seeing there? Any improvement you talked about castings that being -- that raised that red flag. What specifically you were getting at there? And then I'll throw in also the other topics as your inflation and how you're dealing with that?

Gregory J. Hayes - *Raytheon Technologies Corporation - Chairman, President & CEO*

Yes, that little thing. So let's talk about supply chain because I know every CEO that sits up here has a story about supply chain. Just to put it in perspective for RTX, we've got roughly 13,000 product suppliers. Of those 13,000, there are about 1,390 which we would consider to be critical suppliers that is engineered items or something that is very difficult to get someplace else. There's other things, fasteners and raw materials and things like that. But those 1,390 suppliers are the ones that we have been focused on.

Of those 1,390, there are about 380 that I would tell you are a cause for some level of concern. Today, I've got our folks -- our supply chain folks out at, at least 280 of those suppliers working through some of the issues. And the issue is, if you -- you can just put it in perspective, when I take a look at 2019, we had about 15,000 parts that were delinquent to our MRP. Today, it's less than 10,000.

So while it's a problem, it's not a new problem. And I think to give you guys some comfort, we know how to work this. And we're out there actively working in the supply chain. We've got these 280 folks out there making sure that the suppliers have what they need. We're helping them with schedule. We're helping them with labor.

When you break it down, there's really only a couple of products that I would tell you give me concern. We talked about castings on the fourth quarter call. That's going to cause us to miss some engines here in the first quarter. In fact, Pratt will probably not ship, let's call it, 70 engines to Airbus because of the casting shortages that we're seeing. We'll make that up later in the year.

So for the full year, still confident in the Pratt numbers. But that will hold down growth in the first quarter. Obviously, COVID has had an impact in terms of labor availability. So we're seeing some issues with labor shortages. But again, we think that's temporary. And we think we'll work through that here in the first half, which is, I think, what everybody else is saying.

The other big issue that we've got out there is rocket motors. And that is an issue, of course, for our RMD, our Missiles & Defense business. And that is a bigger problem for us, I would say, in the -- not just the short term but in the medium term, where we think it's going to take us well over a year to get our suppliers back to schedule, and it may even take a little longer than that. So challenges, but all manageable within the kind of the guidance that we gave in the earlier part of the year.

I would say, we talked about probably mid-single 4% roughly growth in the first quarter, probably going to be more like 2% to 3% because of the casting issues, because of some of these other shortages, but still solid earnings growth in the first quarter in line with, I think, what the Street consensus is. Solid cash flow, at least in line with consensus. And for the full year, I think all of this works itself out because the labor shortages, again, we think are temporary and primarily COVID related.

David Egon Strauss - Barclays Bank PLC, Research Division - Research Analyst

So going to the end markets, talk about commercial aero OE first. So you've talked about high teens growth at Collins, 20%, 25% Pratt. You just talked about some of the -- a little bit of a delay in engine shipments. But what underlying those assumptions, can you talk about what you're assuming for A320, MAX, 787, are you getting any sort of signals at all from Boeing that gives you more confidence in what you've baked in?

Gregory J. Hayes - Raytheon Technologies Corporation - Chairman, President & CEO

Yes. I think we're working with Boeing Company and Airbus every single day, making sure that we're in sync with their production schedules. We see clearly, Boeing has got a path to get to roughly 31 aircraft a month by the end of the year, and we're fully capable of supporting that ramp. That's going from, I guess, 20 as we exited the year a month to 30 -- 31. So that shouldn't be a problem. Airbus, again, going from roughly 40 to, I think, about 48 or 49 a month by the end of the year. So those numbers don't seem big.

But if you think about it, for Boeing, that's a 33% increase, more or less 50% increase. And for Airbus, that's a 20% increase in -- or 25% increase in production. So it is putting a little stress on the supply chain, but again, still well below the levels we saw back in 2019. So we're working through that.

We fully believe that those numbers are sustainable. And quite frankly, the demand for narrow-body has recovered. And we see that with the backlog that Airbus has a roughly 7,000 aircraft. I know Airbus would like to take those rates up as high as they can as quickly as they can. But like everybody else, we're urging caution just because of the challenges of the supply chain. The aftermarket is, I would say, also a good story.

As we think about this, we really believe you're going to see recovery in the commercial aftermarket to roughly 80% of 2019 levels by the end of this year. We expect international travel to recover. We also expect not just international but long-haul international probably recovered by about 50% of what we had previously seen. And that's really driven by the reopenings.

We saw Australia this past week reopen. We're seeing Vietnam, we're seeing Japan, we're seeing other countries reopen. And I know China remains closed to the most international traffic, but that's only 6% of international flights for China. So it's going to take some time, but I feel like we're getting there in terms of a return to flight domestically. Those of you that flew down here, planes are full. I think that is all good news.

And we're really in the U.S., I think, pretty well recovered back to 2019 levels domestically. And then it's just a question of reopening on the international side. And knock on wood, right? The Omicron is the last variant of concern that we're going to see. And absent -- any news there, I think we have a solid line to full recovery by the end of '23.

David Egon Strauss - Barclays Bank PLC, Research Division - Research Analyst

Can you talk in terms of the aftermarket, can you talk about how things are trending? You're 2 months into Q1 a little bit removed from the Q4 report, what you're seeing in terms of the aftermarket over the course of the last month or 2?

Gregory J. Hayes - Raytheon Technologies Corporation - Chairman, President & CEO

Yes, despite, I think, some of the hiccups that we saw in airline scheduling and some of the challenges that we saw in December and January with the airlines, aftermarket continues to recover. And the airlines are in pretty good shape. And so I would tell you that the trends again, we're halfway through February.

So I've only really seen the final January numbers. They would support this recovery trajectory that we had assumed back in -- back at the end of the year. So no surprises there. We're talking to the airlines. They need parts, they need to get engines back into our shops. They need us, they need the repair activity to continue, and we're busy, which is good.

David Egon Strauss - Barclays Bank PLC, Research Division - Research Analyst

GTF. Obviously, you want to talk about GTF a fair amount. But how that contributes to the 2025 targets that you've laid out for Pratt? How should we think about the OE and the aftermarket progression over the longer term for GTF?

Gregory J. Hayes - Raytheon Technologies Corporation - Chairman, President & CEO

Yes. So when we sat here 2 years ago, I guess it was 2 years ago. We talked about GTF and the fact that by 2025 or so, we should be cash flow breakeven on GTF. I would tell you that's been pushed out a couple of years simply because of the events with pandemic. But we still seem to -- we still are on track, I would tell you, into cash flow breakeven probably around 2027, start seeing positive momentum from the aftermarket.

And I said back in the fourth quarter call that eventually, we will see margins in the GTF similar to what we've seen in the V2500. Keeping in mind the V2500 is a mature platform, we've delivered over 7,000 engines. We're a long way away from that on the GTF in terms of scale. But with the advantage engine coming online here in 2023, which will be an improvement in fuel burn, it will be an improvement in reliability. And it will also be the first engine out there that was designed to run at 100% sustainable aviation fuel.

So I think as all of those things unfold, you'll continue to see progression in the GTF financials. But it's still -- we still lose money on every single engine we ship out the door, it's \$1 million loss. And I think that is the reality. We still have work to do on driving down the costs. The biggest benefit we'll have is volume. And so as we ramp up volume, it gives us a chance to leverage our supply chain maybe to drive cost down even and try and bring that cash flow breakeven.

David Egon Strauss - Barclays Bank PLC, Research Division - Research Analyst

Moving over to the defense side of the house. So how do we think about overall defense growth out of your portfolio? Obviously, there's RMS and the legacy of Raytheon businesses, but you have a big defense piece in Pratt and Collins. So how do we think about the different pieces within that large defense bucket?

Gregory J. Hayes - Raytheon Technologies Corporation - Chairman, President & CEO

So you actually -- so defense, I would tell you on the legacy Pratt side will be down this year, probably 5% or so. And that's -- there's a couple of pieces to that. There is the legacy aftermarket business, SDF-100. These are old F-16 engines as they come out of service. We're not seeing -- we're seeing a decline in some of that legacy aftermarket. But we're also seeing, of course, a slight reduction in JSF production and development costs or development programs. So down a little bit.

The good news is, as we see JSF production start to level off and even declined slightly, the sustainment is actually picking up quite nicely, such as total JSF revenue should be up for the year.

But Pratt will be down. I think about Collins, it's -- a big piece of their business is military. That should be up 3% or 4% this year, again, they're benefiting from the sustainment activities on JSF as well as some development as well as some classified programs. RMD, I think we should see solid growth there, kind of low mid-single digits. RIS, our information and systems business, probably not much growth organically, it should be up maybe 1% or 2%. As you'll recall, we made a divestiture in December of our training services business. It was about \$1 billion of sales that goes away. So they won't see much growth.

The good news, I would tell you, as I think about the defense portfolio, you've got \$63 billion of backlog in defense. That's across all of RTX. All we have to do is execute there, and we will see solid growth for the next 3 years. And we have solid bookings coming in. We expect book-to-bill for the businesses to be above 1 this year.

And DoD budgets, despite I know everybody was panicked 2 years ago with the Biden administration that budgets are coming down, budgets aren't coming down. In fact, I think we expect to see a 4% or 5% growth next year above the baseline for DoD spend, which I think this year, I think the NDAA was \$740 billion. So we're looking at a number of \$770 billion, \$780 billion. And part of that, of course, impacted by inflation, but I think solid growth. And so this whole idea that defense is in decline. All we have to do is look across to Eastern Europe to see that is not the case.

David Egon Strauss - *Barclays Bank PLC, Research Division - Research Analyst*

Moving over to the margin opportunity. So at Investor Day last year, you introduced us to the core operating system. Can you talk about how you're going -- you're using it to go after your structural cost opportunity. I think you've identified these different buckets between supply chain, operational excellence footprint, digital transformation. How are each of those buckets kind of stack up and how you're progressing on each one of those?

Gregory J. Hayes - *Raytheon Technologies Corporation - Chairman, President & CEO*

So as we brought Raytheon and UTC together, we needed a common language, if you will. You'll recall a long time, UTC followers, we had something called ACE, Achieving Competitive Excellence Raytheon, our Six Sigma -- R6 SIGMA. We put all that together, trying to pick the best of both operating systems. We came up with this CORE, which is customer-oriented results and excellence. Don't worry about the acronym.

The fact is what we're trying to do is focus on how do you structurally attack cost in the organization. So today, we've got roughly 50 different footprint projects. Now a lot of -- some of that is office. Some of that is factory. But we have 32 million square feet of office space. We're going to attack that. We'll probably get \$75 million to \$100 million of cost out of there over these next couple of years.

Similarly, on the factory side, we're looking at what we can do to streamline and optimize the footprint. As I think about electronics, we do them in multiple locations across the country. Our best electronics facilities are, quite frankly, in Cedar Rapids, Iowa and Santa Isabel, Puerto Rico. And so part of this -- the focus in terms of operational excellence is how do you take all the work and move them to these centers of excellence. So we're doing that with electronics. We're doing that with machining. We're doing that for special processes.

At the same time, we're also investing in new facilities. I was in Dallas last week, McKinney, actually, where we have the new advanced manufacturing center that we're investing roughly \$500 million in to give us a state-of-the-art capability with automation, full automation, better quality, better process control. We're also investing roughly 3/4 of a billion dollars down in Asheville, North Carolina for a new turbine airfoil center. So there's multiple pieces of this.

If you think about it, so when we brought these 2 companies together, we said we're going to get \$1 billion of synergies. Well, we got the \$1 billion. This year, we should get another \$335 million, and we're well on our way by the end of next year to get to a full \$1.5 billion or more in terms of synergy savings. So I think the team is working on all this digital, I would tell you right now is a huge opportunity for us, but it's also a big cost because I think we're spending several hundred million dollars this year to get the digital infrastructure backbone in place first. And we're also working program by program to make sure that we can employ some of these digital tools to have a digital twin and to have a soup to nuts digital experience for our customers.

David Egon Strauss - *Barclays Bank PLC, Research Division - Research Analyst*

Moving over to capital deployment. So you have this \$20 billion commitment out there. How do we think about the mix between dividend, share repo? And then you've done some divestitures, nothing from the acquisition side and how you're thinking about potentially the M&A side of things?

Gregory J. Hayes - Raytheon Technologies Corporation - Chairman, President & CEO

So again, when we first brought the businesses together back in April of 2020, we made a commitment to return \$18 billion to \$20 billion to shareowners in the first 4 years. Actually, it was the first 3 years, but then COVID, so we said 4. And we haven't really come off of that. We still firmly believe we're going to hit that \$20 billion.

As I said before, the dividend is a key element of that. And today, I think the dividend is just over \$2 a share. You can expect that will grow this year. And over the next 3 years, continuing to probably a payout ratio kind of in that mid-40% range, which we think is a competitive dividend. That's a \$3 billion call on capital. So over 4 years, that's \$12 billion. We didn't do any share buyback, obviously, in 2020. Last year, we did \$2.3 billion. This year, we'll do \$2.5 billion just given kind of the run rate and the balance sheet, the cash position we have, we should easily get to that \$20 billion, I would say it's \$20 billion plus at this point, where we would see probably \$3 billion of dividends and \$3 billion of share buyback a year going forward.

As I think about M&A, I think it's hard to do M&A today. I think again, with the Biden administration and the FTC taking some of the positions, I think it's unlikely that there's going to be a big appetite to do any further consolidation in the A&D industry. Quite frankly, we don't need to do any. We've got a great portfolio. I think our timing was fortuitous.

As I think about our portfolio, though there are still pieces that are suboptimal. And we will be, over the course of the next year, looking to, I would say, turn back the portfolio to make sure that we're focused on those markets where there is real growth real opportunity for margin expansion and real technological differentiation. So we've talked about this before.

There's a couple of businesses in Collins that I think don't fit what we want to do long term. Because of the spin transaction with UTC, we are prohibited from doing anything for 2 years. But that's coming to an end here in another 1.5 months. And so I would expect that over the course of the summer, we'll be looking at this, and we'll be hearing about some potential divestitures.

I don't want to give these businesses away. I think we want to make sure that they are good solid businesses and that we can get full and fair value for them. And if we can't, we'll keep them. But we don't need the capital. We're not going to be doing big M&A. We will do fill-in M&A. And last year, we did about \$1 billion of divestitures. We did about -- actually, we did about almost \$2 billion of divestitures when you figure in Forcepoint. And we did about \$1 billion of acquisitions. I think you'll see kind of that \$1 billion of acquisition every year, but nothing huge or game changing, really just technology fill-ins.

David Egon Strauss - Barclays Bank PLC, Research Division - Research Analyst

And a question I'm sure you don't get it all. Bridging the \$10 billion free cash flow target in 2025, but it seems the best for last or at least close to last -- so \$5 billion in 2021.

Gregory J. Hayes - Raytheon Technologies Corporation - Chairman, President & CEO

\$6 billion this year.

David Egon Strauss - Barclays Bank PLC, Research Division - Research Analyst

\$6 billion this year. We know about the profit growth you're projecting, but I think you have headwinds, pretty significant headwind from a pension cash perspective, potentially a little bit of a headwind on the CapEx side. So how do we make that bridge? And I guess what is the path? Is it linear or beyond 2022?

Gregory J. Hayes - Raytheon Technologies Corporation - Chairman, President & CEO

Yes. So I think it's -- I would -- Neil can take you through the individual pieces. I think about it in 3 buckets. So today, we spend about \$5 billion a year on CapEx and R&D. That number is going to grow from \$5 billion to \$6 billion. So that's about a \$1 billion headwind from today to 2025. Another \$1 billion of pension headwind in terms of funding that we're seeing today that we don't expect will repeat in 2025. So there's another -- a couple of another \$1 billion there against that \$10 billion.

So the question is, how do you go from \$4 billion to \$10 billion. And I would tell you 80% of that is going to be from operational improvement, margin expansion at Collins, margin expansion at Pratt. Top line growth, bottom line growth at all 4 of the businesses over the next 3 years and highly confident that we're going to see that growth.

But it really is, at the end of the day, growth from the operations is going to drive our cash flow to that \$10 billion, which I think is good news because they're still investing. I think we're going to invest \$3 billion of CapEx. We're going to invest \$3 billion of our own money in R&D and still be able to generate \$10 billion of free cash flow in 2025.

David Egon Strauss - Barclays Bank PLC, Research Division - Research Analyst

So last question, R&D amortization. I mean, it's -- the way you laid it out, it was a pretty significant headwind. Thoughts on will it get deferred will -- your outlook there and how you interpreted that hit relative to some other companies that maybe took a little bit of a narrower approach.

Gregory J. Hayes - Raytheon Technologies Corporation - Chairman, President & CEO

Yes. I accused our tax folks would be a little conservative. But -- so we've got roughly \$11 billion in R&D. So it's \$2.5 billion plus of our own money plus another \$8 billion or so that comes from our customers that we believe would be subject to deferral and amortization under the provisions of the 2017 job and tax cut act. We firmly believe and everybody we talk to in Washington understand it is bad public policy. It discourages investment in innovation.

Should that \$11 billion in have to be deferred and amortized, it will cost us roughly \$2 billion in additional taxes this year. Again, it's not a P&L hit per se, but it is a cash flow hit. And so \$6 billion becomes \$4 billion. And that is a significant number. I think there are many others out there that are facing a similar dilemma. Now I know other companies have taken a different view in terms of one is included in that R&D number, and maybe we'll be proven wrong, maybe it will be a smaller number.

But regardless, I think it's bad public policy. And so we are working in Congress today to try and get the R&D amortization portion of the '17 Act changed or at least deferred. Maybe the one -- the best thing about Build Back Better was everybody agreed that, that was going to be part of it. We were going to defer that thing out through 2026. So we'll see what happens. There is a good news side. If we do have to pay that tax, it was actually a P&L benefit of about \$0.10. So I'm not counting on that, but that's just -- that's the vagaries of tax accounting.

David Egon Strauss - Barclays Bank PLC, Research Division - Research Analyst

All right. We're up against the clock. Let's see if there anyone chose to respond to the questions if we could pull those up. Now this looks a little bit different than what I've seen. All right. Fair amount of people that don't -- okay, next question? All right, next one. Next question? You may respond, but...

Gregory J. Hayes - Raytheon Technologies Corporation - Chairman, President & CEO

Pay their down debt, one way it is.

David Egon Strauss - Barclays Bank PLC, Research Division - Research Analyst

That's encouraging. And then the last one. All right. Well, Greg, thanks very much.

Gregory J. Hayes - Raytheon Technologies Corporation - Chairman, President & CEO

David. Thanks for having us. Good luck.

David Egon Strauss - Barclays Bank PLC, Research Division - Research Analyst

Thank you.

Gregory J. Hayes - Raytheon Technologies Corporation - Chairman, President & CEO

Thank you.

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