19-Jul-2016

Discover Financial Services (DFS)

Q2 2016 Earnings Call

Copyright © 2001-2016 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

Bill Franklin
Vice President-Investor Relations

R. Mark Graf
Chief Financial Officer & Executive Vice President

David W. Nelms
Chairman & Chief Executive Officer

OTHER PARTICIPANTS

Kenneth Matthew Bruce
Bank of America Merrill Lynch

Donald Fandetti
Citigroup Global Markets, Inc. (Broker)

David Ho
Deutsche Bank Securities, Inc.

Sanjay Sakhrani
Keefe, Bruyette & Woods, Inc.

Arren Cyganovich
D. A. Davidson & Co.

James Friedman
Susquehanna Financial Group LLLP

David M. Scharf
JMP Securities LLC

John Hecht
Jefferies LLC

Elizabeth Lynn Graseck
Morgan Stanley & Co. LLC

Bob P. Napoli
William Blair & Co. LLC

John Pancari
Evercore Group LLC

Eric Wasserstrom
Guggenheim Securities LLC

Mark C. DeVries
Barclays Capital, Inc.

Jason E. Harbes
Wells Fargo Securities LLC

Ryan M. Nash
Goldman Sachs & Co.

Moshe Ari Orenbuch
Credit Suisse Securities (USA) LLC (Broker)

Copyright © 2001-2016 FactSet CallStreet, LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Discover Financial Services second quarter 2016 earnings conference call. At this time all participants are in a listen-only mode. Later we will conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder, this conference is being recorded.

I would like to introduce your host for today's conference, Bill Franklin, Head of Investor Relations. You may begin your conference.

Bill Franklin

Vice President-Investor Relations

Thank you, Mike. Good afternoon, everyone. We appreciate all of you for joining us. Let me begin, as always, with slide two of our earnings presentation, which is in the Investor Relations section of discover.com.

Our discussion today contains certain forward-looking statements about the company's future financial performance and business prospects, which are subject to risks and uncertainties and speak only as of today. Factors that could cause actual results to differ materially from these forward-looking statements are set forth within today's earnings press release, which was provided to the SEC in an 8-K report and in our 10-K and 10-Q, which are on our website and on file with the SEC.

In the second quarter 2016 earnings materials, we have provided information that compares and reconciles the company's non-GAAP financial measures with the GAAP financial information and we explain why these presentations are useful to management and investors. We urge you to review that information in conjunction with today's discussion.

Our call today will include formal remarks from David Nelms, our Chairman and Chief Executive Officer; and Mark Graf, our Chief Financial Officer. After Mark completes his comments, there will be time for a question-and-answer session.

During the Q&A period, it would be very helpful if you limit yourself to one question so we can make sure that everyone is accommodated.

Now, it is my pleasure to turn the call over to David.

David W. Nelms

Chairman & Chief Executive Officer

Thanks, Bill, and good afternoon, everyone. For the second quarter, we reported net income of $616 million and diluted earnings per share of $1.47, up 11% year-over-year. These results included a non-recurring tax benefit of $44 million, which contributed $0.11 to diluted earnings per share.

Our Direct Banking business continues to deliver solid results. Discover achieved total loan growth of 4% over the prior year with a healthy net interest margin. In the card business, we also grew receivables by 4%. This receivables growth was the result of more new accounts and slightly higher customer spending and borrowing on

Copyright © 2001-2016 FactSet CallStreet, LLC

their cards as our overall revolver mix for the portfolio increased. Card sales grew by 2% over the prior year, a bit lower than we would like.

Our sales growth was outpaced by the growth in rewards; however, we're seeing benefits from the double rewards campaign in new accounts, sales from new accounts, and in the cost to acquire these accounts. Along those lines, we set a post-recession record for new card accounts during the quarter, demonstrating that our brand, rewards and overall value proposition continue to resonate with our target customers. We believe these new accounts will contribute to future sales and loan growth and will leverage our brand and increase consideration. We launched credit score card, which provides both current and prospective customers with access to their FICO score, as well as the summary of the data that is helping and hurting their score.

Our other Direct Banking products also performed well. The organic student loan portfolio increased 15%, driven by our continued focus on increasing awareness of Discover Student Loans.

Personal loans grew 10% over the prior year, driven by digital investments and increased marketing, which have allowed us to drive growth while still maintaining an average FICO on new accounts of around 750. Both student and personal loans are on track for record originations again in 2016.

On the funding side of Direct Banking, I'm very pleased with the 16% growth in direct to consumer deposits. These deposits made up 47% of funding at quarter end. Our investments in marketing have continued to pay off, driving strong growth specifically in savings accounts and balances.

Moving to our Payments business, PULSE volume declined 9% year-over-year. We expect PULSE volumes will stabilize around the end of the year. At the same time, Network Partners and Diners Club volume increased over the prior year, with Diners Club volume increasing 6%, driven by strong growth in the Asia Pacific region.

During the quarter, we received a lot of positive recognition from third parties. To highlight, Fortune ranked us on its list of 100 Best Workplaces for Millennials. And Computerworld ranked us as one of the top 100 Places to Work for IT Professionals. We believe our commitment to treating our employees well translates into delivering the best products and services to our customers and superior returns to our shareholders.

Overall, it was a good quarter. We're making progress against our key focus areas for the year and we're pleased with how we lined up versus other banks in the CCAR stress test results, as well as overall capital returns planned for the year ahead.

Now, I'll turn the call over to Mark and he'll walk through the details of our second quarter financial results. Mark?

R. Mark Graf

Chief Financial Officer & Executive Vice President

Thanks, David, and good afternoon, everyone. I'll start by going through the revenue detail on slide five of our earnings presentation. Net interest income increased $115 million or 7% over the prior year, driven by continued loan growth and a higher net interest margin.

Total non-interest income decreased $74 million to $465 million. The prior year's results included $28 million in mortgage origination revenue, a category that's absent this year as we are no longer in that business.

Net discount and interchange revenue was down 11%, driven by a higher rewards rate year-over-year. Our rewards rate for the quarter was 121 basis points, up 16 basis points over the prior year due to higher promotional

Copyright © 2001-2016 FactSet CallStreet, LLC

and standard rewards, which David noted are helping attract new accounts. Sequentially, the rewards rate was up 15 basis points, driven by higher enrollment in spending in the quarter's rotating 5% category.

Moving to Payment Services, revenue decreased $2 million from the prior year mainly due to the previously announced loss of volume from a third-party debit issuer. Overall, we grew total company net revenue by 2% for the quarter.

Turning to slide six, total loan yield of 11.72% was 37 basis points higher than the prior year, primarily driven by a 38-basis-point increase in card yield. The year-over-year increase in yield was primarily due to the higher percentage of revolving card receivables in the portfolio as well as the impact of last December's prime rate increase.

On the funding side, we grew average direct-to-consumer deposits by $4 billion. Total funding costs increased only 8 basis points despite higher market rates, as their impact was muted by last year's fixed rate debt issuances and our growing direct-to-consumer deposit base.

Overall, net interest margin expanded 31 basis points from the prior year to 9.94%. For the remainder of the year, we currently expect a relatively stable margin, but it will, of course, be impacted by any changes in our planned level of promotional activity, revolving behavior in the card portfolio and any future Fed actions.

Turning to slide seven, operating expenses were down $21 million over the prior year. Last year's results had $62 million in expense associated with the operation and closure of the direct mortgage origination business, about a third of which was reflected in employee compensation.

The $14 million year-over-year increase in total employee compensation you see in the table was driven primarily by higher head count to support compliance activities as well as annual merit increases. Marketing expenses were flat. The savings from the elimination of mortgage marketing activities were reinvested in other areas of the business. Professional fees fell $3 million.

The work streams underlying the AML/BSA look-back project were, as expected, completed during the quarter at a cost of $12 million as compared to $19 million in the second quarter of last year. While the completion of these work streams represents a milestone, I would remind you that we are continuing to enhance our compliance program to meet the terms of our consent orders. Other expense was lower, as the prior year included $23 million in one-time charges associated with the exit of the home loan business.

Turning to provision for loan losses in credit on slide eight, provision for loan losses was higher by $106 million compared to the prior year due to higher reserves in charge-offs primarily driven by loan growth.

This quarter we increased reserves $28 million while last year we had a $41 reserve release. The credit card net charge-off rate of 2.39% increased by 11 basis points year-over-year and increased 5 basis points sequentially.

The 30-day delinquency rate of 1.63% increased 8 basis points year-over-year and was down 5 basis points sequentially. On balance, the credit backdrop remains benign and reserving continues to be driven primarily by the compounding effect of several years of consistent loan growth, a meaningful portion of which has come from new accounts.

Looking at student loans, the net charge-off rate, excluding acquired loans, increased 8 basis points from the prior year due to continued seasoning of the organic book. Sequentially, the rate increased 25 basis points due

Copyright © 2001-2016 FactSet CallStreet, LLC

primarily to seasonality. Student loan delinquencies, once again excluding acquired loans, increased 10 basis points to 1.88% as a larger portion of the portfolio continues to come into repayment and decreased 4 basis points sequentially. Overall, the student loan portfolio continues to season generally in line with our expectations.

Switching to personal loans, the net charge-off rate was up 28 basis points from the prior year and down 7 basis points sequentially. The 30-day delinquency rate was up 31 basis points from the prior year and up 5 basis points from the prior quarter. The year-over-year increases in the personal loan charge-off and delinquency rates were primarily driven by the seasoning of recent loan growth, which was consistent with our expectations.

Next I'll touch on our capital position on slide nine. Our Common Equity Tier 1 capital ratio was flat sequentially. This ratio declined 20 basis points from the prior year due to capital deployment in the form of loan growth, buybacks and dividends. In the quarter, we again repurchased approximately 2% of our common stock.

As David mentioned, we're pleased with how we lined up versus other banks in terms of our stress capital ratios in the Federal Reserve's CCAR process. We received a non-objection from the Fed with respect to our proposed capital actions for the four quarters ending June 30, 2017. As a result, we plan to repurchase almost $2 billion of our common stock over the next 12 months. And last week our board increased our quarterly common stock dividend from $0.28 to $0.30 per share. At current share prices, this results in one of the highest total yields among CCAR participants.

In summary, we delivered strong net interest income by growing loans in NIM, saw increased rewards expense primarily due to our double promotion, which drove more new and engaged accounts through the proportion of funding we got from deposits and achieved a favorable outcome from the 2016 CCAR process.

That concludes our final remarks and now I'll turn the call back to the operator, Mike, to open the line up for Q&A.

Copyright © 2001-2016 FactSet CallStreet, LLC

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Ken Bruce from Bank of America Merrill Lynch.

Kenneth Matthew Bruce
Bank of America Merrill Lynch
Q

Thank you. Good afternoon. I guess...

David W. Nelms
Chairman & Chief Executive Officer
A

Hi, Ken.

Kenneth Matthew Bruce
Bank of America Merrill Lynch
Q

Hi. Last quarter you discussed that you had not made a decision to accelerate growth or use some of the stronger margins to try to drive more growth. I'm wondering if you've had to change your heart around that particular issue, or if this is just a situation where you want to essentially just capitalize on these high margins and let the portfolio roll up on higher yields?

R. Mark Graf
Chief Financial Officer & Executive Vice President
A

Yeah. So I think the way I think about it, Ken, is really – and I'll let David comment as well, too, but I think about it as a constrained optimization, right. There's a combination of rewards of returns in growth that you'd like to see. I think we're continuing to reserve the right to invest some of that margin strength we're seeing over the back half of the year. We currently haven't found any ways of doing it that from an NPV perspective really made sense for us. That's why, we're continuing to guide to a relatively stable margin at this point in time, but giving ourselves the ability, I guess, to change that if we see a need to going forward.

One of the things we did do is we did go ahead and reinvest the marketing spend from last year that we had in the direct mortgage business into some of the other businesses. You might see us lean into marketing expense a little bit as we go forward into the back half of the year relative to what you've seen from us lately, but we're pleased with the resolver sales growth we're seeing right now and pleased with the trajectory of NIM and loan growth.

David W. Nelms
Chairman & Chief Executive Officer
A

And, Ken, the only thing I would add is we really haven't changed from last quarter. We're focused both on growth of loans as well as maintaining strong profitability.

Kenneth Matthew Bruce
Bank of America Merrill Lynch
Q

Okay. Thank you.

Operator: The next question is from David Ho with Deutsche Bank.

Copyright © 2001-2016 FactSet CallStreet, LLC

David Ho
Deutsche Bank Securities, Inc.

Q

Hi. Good afternoon. I had a question on whether or not you're getting similar levels of spend and lend volumes. I know it's early days to offer the record new account acquisition that you're doing off the back of this extended promo period.

David W. Nelms
Chairman & Chief Executive Officer

A

David, I think we're not quite to the point where we're getting expirations of the Double Cash back bonus, if that's what your question is. So I think that's something we'll be watching over the next several quarters. But I would say, the spend during the time when they're in the promotions has somewhat exceeded our expectations, which is why we've continued to offer double.

David Ho
Deutsche Bank Securities, Inc.

Q

Okay. Thank you. And is the prime consumer generally, are you seeing a more willingness to revolve, or is it more the supply credit generally expanding across the industry?

David W. Nelms
Chairman & Chief Executive Officer

A

I think at the margin, consumers appear to be having deleveraged very significantly, are starting to very modestly increase their borrowings. And I think it's a very healthy amount. So you still see very benign credit, but you're seeing the credit card loan growth category across prime issuers move from shrinking to slight growth even in the prime space.

David Ho
Deutsche Bank Securities, Inc.

Q

Thanks.

Operator: The next question is from Arren Cyganovich with D.A. Davidson.

Arren Cyganovich
D. A. Davidson & Co.

Q

Thanks. You'd mentioned the recent strong account acquisition growth and you said the best since the credit crisis. I think last year you were also booking some pretty strong accounts. And we've seen some pickup in terms of loan growth. Are you expecting another acceleration from these recent account acquisitions or a bit more of the same trajectory?

David W. Nelms
Chairman & Chief Executive Officer

A

Well, I would say, we are certainly hoping that the strong new account growth along with other actions will help increase our loan growth a bit further into our range. As you know, we're looking for 4% to 6% in total. And so we're within that range. But we are hoping to go further into the range as the quarters go by in the future.

Copyright © 2001-2016 FactSet CallStreet, LLC

Arren Cyganovich
D. A. Davidson & Co.

Q

Okay. Thanks. And then, just quickly, on the rewards cost, came in a little higher than I expected. Did you push up your guidance for the year? I think you're at 115 basis points for the year.

R. Mark Graf
Chief Financial Officer & Executive Vice President

A

No, I think in terms of rewards guidance, we've been speaking to something in that 115-basis-point area, as you discussed. I think what you saw in the quarter was really more an impact of what last quarter's rotating 5% cash back category was, that drove pretty significant engagement and that really drove the big sequential increase in rewards. On a full-year basis, we're still looking for something in that 115-basis-point range, maybe 1-basis-point or 2- basis-point higher, but nothing of any significant different from the guidance.

Arren Cyganovich
D. A. Davidson & Co.

Q

Great. Thank you.

R. Mark Graf
Chief Financial Officer & Executive Vice President

A

You bet.

Operator: The next question is from David Scharf from JMP Securities.

David M. Scharf
JMP Securities LLC

Q

Good afternoon. Thanks for taking my question. You may have touched upon this a lit with the mix. But can you provide a little more color on perhaps the 2% sales volume growth, which looks like it came in a little below expectations, and certainly, it's not coming from over the last three months from gas price trends. Any color on what you may be seeing there?

David W. Nelms
Chairman & Chief Executive Officer

A

Well, as you know, our primary focus is on loan growth, which continues to be strong. It actually moved up just a slight amount to just over 4% from just under 4% last quarter. We don't aspire to have the same sales growth as peers who focus more on the transactor space. However, we would like it to be a bit higher than what we saw in the second quarter. And so we are hopeful that a number of the actions that we've been taking, whether it's more new accounts, focusing on engagement with our cash rewards program and other actions to help stimulate some sales volume will move the sales volume up a bit over the coming quarters as well.

David M. Scharf
JMP Securities LLC

Q

Got it.

R. Mark Graf
Chief Financial Officer & Executive Vice President

A

Copyright © 2001-2016 FactSet CallStreet, LLC

The only thing I'd...

David M. Scharf
JMP Securities LLC

Q

And just – I'm sorry?

R. Mark Graf
Chief Financial Officer & Executive Vice President

A

No, I was just going to say the only thing I would add to that is there's several folks with some very high headline rewards rates that are out there. And I think we've just said it doesn't seem to make economic sense to us in a lot of cases and those clearly are going to be the most appealing to the transactor who tends to drive the majority of the sales growth. So with a very lend-centric model in this environment, I would expect us to lag on the sales growth front. But, as David noted, we'd like to see it be somewhat higher than where it sits right now.

David M. Scharf
JMP Securities LLC

Q

Got it. Helpful. And then, just as a follow-up, it looks like on the personal loan side, it looks like it's the first time in four quarters you're back up to double-digit year-over-year growth. Do you feel you're benefiting at all from some of the pullback by perhaps marketplace lenders, other refinancing products out there, or was there anything on the promotional side on your end that may have driven the performance?

David W. Nelms
Chairman & Chief Executive Officer

A

We've produced record originations each year, the last few years, and we expect to do the same this year with actions we've taken. So I think most of the growth is our actions in marketing. And it's not really promotional in terms of promotional rates, but increased marketing and increased effectiveness of that marketing, yes. At the margins, I'm sure we're benefiting a bit from the pullback of some of formerly P2P kind of companies. But a lot of – as we've talked before, a lot of where they play is in the lower credits where we don't play. So I think to the extent that they also did pick up some prime – originate some prime loans and are originating fewer that should help us a little bit. And it certainly doesn't hurt. [indiscernible] (21:59).

David M. Scharf
JMP Securities LLC

Q

Got it. Thank you very much.

Operator: The next question is from Betsy Graseck from Morgan Stanley.

Elizabeth Lynn Graseck
Morgan Stanley & Co. LLC

Q

Hi. Good afternoon.

R. Mark Graf
Chief Financial Officer & Executive Vice President

A

Hey, Betsy.

Copyright © 2001-2016 FactSet CallStreet, LLC

Elizabeth Lynn Graseck
Morgan Stanley & Co. LLC

Q

Just a question on the reserving and the seasoning that you were talking about, since you are generating some incremental loan growth, some nice loan growth as we're trajecting here throughout this year, which we're expecting. Do you see that seasoning continuing to track up at the same peak that you've been experiencing over the last year-and-a-half or so? Or is there a point at which you feel that a sufficient portion of the portfolio is seasoned and reserve build will start to fade?

R. Mark Graf
Chief Financial Officer & Executive Vice President

A

Betsy, I think at this point in time what you're really dealing with is the compounding effect of the loan growth as opposed to just the last quarter or two's loan growth that's really driving that reserving. The cards and personal loans both tend to take peak charge-offs about 24 months after you originate them. If you think about it, the vintage from two years ago is right at that peak; the vintage from last year is climbing the hill and the vintage from three years ago is still pretty high under the curve, but dropping off.

So as we've continued to originate more new accounts every year successfully since the crisis. The area under that curve grows, because the vintage falling out of that peak is smaller than the one that's climbing the hill. So I think it's really the compounding effect of that that's the driver. I wouldn't expect – as long as we're able to continue driving loan growth at the levels we are right now and keep solid new account production across the products, I wouldn't expect to see us slip to a situation where we fall into a reserve release or a net neutral reserve position; at least not for any length of time.

David W. Nelms
Chairman & Chief Executive Officer

A

The only two things I would add to that, Betsy, is one is, even if there wasn't season, it was absolutely stable credit, when you're growing loans, you'd obviously have to set aside some loan loss reserves to cover those new loans. And secondly, there's also obviously going to continue to be some volatility between quarters, given the large size of the reserve balance.

Elizabeth Lynn Graseck
Morgan Stanley & Co. LLC

Q

Sure. And then, you know how the portfolio is trending from a credit perspective relative to what you were expecting when you underwrote them. Just on a vintage curve basis, has there been much change at all over the past several quarters or not really?

David W. Nelms
Chairman & Chief Executive Officer

A

I would say they've tracked generally to our expectations. If you're talking about a little bit longer term, they've tracked somewhat better because this credit environment has remained benign and there's been less normalization than we expected. And so where possible, we've tried to find places that we could do an incremental line increase or approve someone that maybe in this – going forward might actually be expected to have prime credit behavior.

Elizabeth Lynn Graseck
Morgan Stanley & Co. LLC

Q

Copyright © 2001-2016 FactSet CallStreet, LLC

Okay. Thank you.

David W. Nelms
Chairman & Chief Executive Officer

A

Thank you.

Operator: The next question is from John Pancari from Evercore.

John Pancari
Evercore Group LLC

Q

Good afternoon. Wanted to see if you can just give us your thoughts on the targeted efficiency ratio expectation, I guess, for full year 2016 and how that may roll into 2017. And then as part of that, just see how we should think about the elevated marketing expense for this quarter if we should expect that it would abate off of this level or perhaps grow from the $198 million? Thanks.

R. Mark Graf
Chief Financial Officer & Executive Vice President

A

Yeah. So I think we've guided to lower expenses in 2016 than we saw in 2015, but we haven't given any efficiency guidance other than to say we expect to keep trending back down toward that 38% level over the course of this year. I don't think we'll achieve it for the full year this year, and just to be clear on that front, given where the year started with some of these increased compliance and AML/BSA look-back costs.

We're starting with such a low efficiency ratio relative to peers to begin with. Some of the one-time costs we saw just we're not going to cut muscle in order to cover those, because we want to keep the engine running and keep the customer experience what it's been. Still feel comfortable that operating expenses in 2016 will be lower than 2015. They may be a tad bit higher than the guidance we called out at the beginning of the year, but not materially so that would cause me to change guidance for you at this point in time.

John Pancari
Evercore Group LLC

Q

Okay. And you mentioned a look-back costs, so you expect that to still go down from the $12 million that you saw this quarter?

R. Mark Graf
Chief Financial Officer & Executive Vice President

A

Yeah. We actually completed all the work streams related to the look-back itself this quarter. So that expense will no longer be with us going forward. But we will have other expenses related to enhancements to the compliance program to comply with the consent orders we have on that front.

John Pancari
Evercore Group LLC

Q

Okay. Got it. Thanks, Mark.

R. Mark Graf
Chief Financial Officer & Executive Vice President

A

Yep.

Copyright © 2001-2016 FactSet CallStreet, LLC

Operator: The next question is from Mark DeVries from Barclays.

Mark C. DeVries
Barclays Capital, Inc.
Q

Yeah, thanks. When you think about your levers for growing car loans, are you still getting enough traction from your cash back match and other rotating categories that we should expect you to rely more on that than on the 0% balance transfer offers? And if so, could you just talk about the implications of that for where NIM could end up in the range of your guidance of relatively flat?

David W. Nelms
Chairman & Chief Executive Officer
A

I'll start and then hand it to Mark. I'd say, generally, yes. The pivot that we made towards match and away from quite as aggressive on the balance transfer promotional offers really starting about a year ago has continued to perform well and is one of the reasons you're seeing elevated cashback bonus expenses with a healthy net interest margin and modest marketing spend as we get lower cost per accounts. So we continue at this point to be – feel good about that trade-off. The only thing I would add is that we are continuously looking at our rewards programs, our marketing mix, testing different things. And so I would expect at some point we'll test into other variations.

R. Mark Graf
Chief Financial Officer & Executive Vice President
A

Yeah, and as far as NIM goes, Mark, the outlook would basically assume that a fairly consistent percentage of the growth we're seeing is coming from the balance transfer activities that we don't lean into it any more or any less candidly than we are right now that's in that stable margin guidance for the remainder of the year. As I alluded to earlier, I think, we're probably more prone to invest some of that excess margin and a little bit of incremental marketing expense in the back half of the year as opposed to more BT activity. But we are preserving the ability to do it if we can find a way from an NPV standpoint to have it make sense.

Mark C. DeVries
Barclays Capital, Inc.
Q

Okay. Thanks.

R. Mark Graf
Chief Financial Officer & Executive Vice President
A

You bet.

Operator: The next question is from Ryan Nash from Goldman Sachs.

Ryan M. Nash
Goldman Sachs & Co.
Q

Hey, good afternoon, guys. Maybe I can ask somewhat of a follow-up question to David. David, just relating to rewards, it seems apparent that rates are going to stay lower for a longer period of time. And I guess, what do you think this means for the overall competitive dynamic both in the reward space and the competition for incremental loan growth?

Copyright © 2001-2016 FactSet CallStreet, LLC

David W. Nelms
Chairman & Chief Executive Officer

A

So you're asking me if we're going to continue to see an elevated competition in rewards. Is that...

Ryan M. Nash
Goldman Sachs & Co.

Q

What do you think the fact that we're going to be in a further low rate environment does to the competitive dynamics in both rewards and loan growth?

David W. Nelms
Chairman & Chief Executive Officer

A

Okay. Well, I would say, in a low rate environment, transactors aren't as costly as in a higher rate environment. I think that's why you're seeing some other competitors chase the transactors very aggressively with rewards. And it's one of the reasons we're not chasing them quite so aggressively because they're breakeven now and float goes up, do they start losing money again if rewards get that rich. I would say also that the low rate environment and the low return environment in banking is part of what I believe is causing greater competition in cards and specifically in rewards.

And I think post-CARD Act, the issuers may be a little careful on how much they want to reduce their credit standards or how much they want to reduce their APRs, but they may feel like they can at least for now go with some high rewards rates and maybe in the future they have to adjust them down. So I think the low rate environment is driving some of that competition. And it's why we try to keep our discipline by having a sustainable rewards rate and be disciplined on maintaining profitability, not just go for really high growth, but less profitable growth.

R. Mark Graf
Chief Financial Officer & Executive Vice President

A

And, Ryan, I'd just add on to that while it may result in sales growth being a little lower than we'd like to see it, in the near term, I think, it's a real validation of the profit pool and the businesses in the lend-centric element of the business, which is where we intend to remain focused.

Ryan M. Nash
Goldman Sachs & Co.

Q

Got it. If I could ask one other question for Mark.

Just related to the guidance for a relatively stable net interest margin, when I think about a couple of different components, first on loan yields you've talked about remixing the book towards much less transact-oriented, do you think, one – do you think there's more to go there? Second, what is the impact of the fact that we may not see another interest rate rise this year? And then third, does low rates change the way at all you think about the duration of the funding base? Two years ago I think you guys termed out some of the funding. Does that change at all given the fact where rates are today?

R. Mark Graf
Chief Financial Officer & Executive Vice President

A

A bunch in there. I'll try and tackle it. I would say with respect to the latter question, I think we may let the asset sensitivity of the balance sheet drift a little lower naturally over the coming quarters just based on the revised

Copyright © 2001-2016 FactSet CallStreet, LLC

outlook post-Brexit and the impacts on Europe and how that's trickling through the outlook for the global economy. So I wouldn't be surprised to see us do that. I think we will continue to maintain an asset-sensitive position. We think it's the right place for us. And I don't think you'll see us do anything transformational, little – just again be evolutionary over time.

With respect to the mix in the portfolio, I would say, I think you might see a little bit more skewing toward revolvers and away from transactors as the year goes on, but I wouldn't say it would be so meaningful as to change your modeling for us radically from where we sit right now. And there was a third piece to your question, Ryan, that I've forgotten. I'm sorry.

Ryan M. Nash
Goldman Sachs & Co.

Q

Just the impact of lower short-term rates.

R. Mark Graf
Chief Financial Officer & Executive Vice President

A

Lower short rates, yeah, I would say, the current rate curve – current rate environment doesn't concern me at all. I think we do well in the current environment. We do well on a flatter curve. I think we're positioned really well.

Ryan M. Nash
Goldman Sachs & Co.

Q

Got it. Thanks for taking my questions.

R. Mark Graf
Chief Financial Officer & Executive Vice President

A

You bet.

Operator: The next question is from Don Fandetti from Citigroup.

Donald Fandetti
Citigroup Global Markets, Inc. (Broker)

Q

Yes, Mark, given your capital position remaining very strong, I was just curious what your thoughts are on acquisitions. If you're seeing more deals that are of interest to you these days or if prices are still high in payments and other areas.

R. Mark Graf
Chief Financial Officer & Executive Vice President

A

Yeah. I would say with the AML/BSA consent orders we have from the Fed and the FDIC, I think, we're kind of out of the acquisition space right now. Those really are red lights with respect to acquisitions. So we continue to look in the marketplace; stay plugged into the marketplace, make sure we're aware of flow. But I think our ability to act on anything that would touch or impact the bank charter right now is probably non-existent. I would say, with respect to the payment side of the equation, I think I'll let David address that, because that doesn't specifically play into the bank charter.

David W. Nelms
Chairman & Chief Executive Officer

A

Copyright © 2001-2016 FactSet CallStreet, LLC

Well, I would say that I'm not seeing a lot more growth in M&A. I'm hearing more talk in the market, but I'm not seeing as much actually change hands. And the one thing I would say is that even well under the consent order, it could allow us to do certain portfolio kind of things. And I don't think that M&A is the first thing that we focus on as a team anyway. We look at organic growth. We have strong capital returns to shareholders. But, I guess, I would just moderate a little bit. I'm not sure we would 100% be totally out of that, even during this period.

R. Mark Graf
Chief Financial Officer & Executive Vice President
A

Yeah, I think you could do those portfolio purchases. [ph] It's fair (35:44).

Donald Fandetti
Citigroup Global Markets, Inc. (Broker)
Q

Got it. And then a follow-up. David, obviously, there have been a lot of mix signals in terms of the consumer. I'm not sensing that you're seeing any type of deceleration. It sounds like it's more steady she goes from your standpoint.

David W. Nelms
Chairman & Chief Executive Officer
A

So more on consumer credit, I think?

R. Mark Graf
Chief Financial Officer & Executive Vice President
A

So, Don, was it consumer credit or more on just consumer sales or leveraging?

Donald Fandetti
Citigroup Global Markets, Inc. (Broker)
Q

Yeah. More on consumer sales and willingness to take on that in confidence.

David W. Nelms
Chairman & Chief Executive Officer
A

I think that where the big action is in two places. I've certainly seen some growth from – in transactors and in some co-brand deals and there seems to be action there. There also seems to be a lot more loan growth in the subprime space. And certainly we're seeing competitors – I think it was more credit availability issue there, that after the crisis, everyone pulled back. And right now, you've got a couple of competitors who are really making a lot more credit available. And so we're seeing loan growth there. In the prime space that we focus on, I'm seeing generally slow sales growth, slow but now positive loan growth as an industry. And just gradual increases in confidence of the consumer since they're in a really healthy place from a personal balance sheet perspective. The healthiest we've seen in many, many years.

Donald Fandetti
Citigroup Global Markets, Inc. (Broker)
Q

Got it. Thank you.

Operator: The next question is from Sanjay Sakhrani from KBW.

Copyright © 2001-2016 FactSet CallStreet, LLC

Sanjay Sakhrani
Keefe, Bruyette & Woods, Inc.

Q

Thank you. I guess, my first question is just trying to reconcile some of the comments you've made about strong account growth. And the fact that we're not really seeing a pickup in sales growth nor the loan growth numbers, could you just reconcile that for us? Are these new accounts coming on and not really doing much? Or is this something else?

David W. Nelms
Chairman & Chief Executive Officer

A

What I would say is we're actually seeing strong sales growth of the new accounts, and probably, if I had to pinpoint where we're softest, it's in some of our orders transactors. And in some cases, some of them are getting picked up by offers they just can't turn down. And so that's why you're seeing our loans and profits do fine, but – and I guess, that's how I would reconcile it.

Sanjay Sakhrani
Keefe, Bruyette & Woods, Inc.

Q

I see. And as far as the new transactors that are coming on, they're just not revolving as much?

David W. Nelms
Chairman & Chief Executive Officer

A

No, I wouldn't say that. Both loans and sales and new accounts look good. And you're seeing with us a little bit continued pickup on loan growth. We're getting the results that are most important, which is loan growth. And so it's a secondary concern, but we still would love to also see a little more sales growth as well. And we're hoping to achieve that more over time. There's a couple of specific things going on. Obviously, gas prices continue to be about a 1% drag year-over-year.

I think we'll have another quarter of that and then hopefully that should at least finally stabilize. You saw one of the warehouse clubs started accepting more cards and then that's going to pull some of our warehouse sales away as we have to kind of – as consumers have more choices than they did. And so we've got a couple of things like that, but overall, I think the big picture is few of our competitors are just incredibly aggressive at the moment with transactors.

Sanjay Sakhrani
Keefe, Bruyette & Woods, Inc.

Q

Got it. And then, just a follow-up question to your commentary on the BSA/AML stuff. I guess, how long are you constrained at the bank as far as M&A is concerned after you're done? So should we expect this impact to be over the course of the next year or so? And then have there been any missed opportunities because of that? Or has it been net neutral? Thank you.

David W. Nelms
Chairman & Chief Executive Officer

A

The good news is I'm not sure there have been missed opportunities. And if you look over the time before we got into any of this, we didn't have a huge M&A part of our business. We've been mainly inorganic growth story. But I think the key thing that we'd like to do at some point is we need to get the consent orders lifted. And two things have to happen. First, we need to finish the work. And then, it has to be burned in long enough and the regulators have to come in and actually lift the consent orders. And so we're focused right now on that first part. That's in our

Copyright © 2001-2016 FactSet CallStreet, LLC

control. And there is no higher priority at a company than doing that. And as soon as we're to that place, we'll turn our attention to try to move along the process of getting the orders themselves lifted.

Sanjay Sakhrani
Keefe, Bruyette & Woods, Inc.

Q

Great. Thank you.

Operator: The next question is from James Friedman from Susquehanna.

James Friedman
Susquehanna Financial Group LLLP

Q

Hi. Thanks. It's Jamie at Susquehanna. I just wanted to ask about the 2.39% NCO on cards. Mark, how should we be thinking about that trending for the remainder of the year?

R. Mark Graf
Chief Financial Officer & Executive Vice President

A

Yeah. I don't think we give charge-off guidance specifically, Jamie. What I would say is it's up, I think, 11 basis points on a year-over-year basis. And I think that really reflects that continued seasoning. I think there's two things going on. Number one, we're just coming off of an exceptionally low level for charge-offs across the consumer finance industry more broadly. So I do think there's what I'll call just a gradual normalization element of this that is taking place.

But then you also have the seasoning of those multiple years of loan growth and the way that they mature and come to peak losses 24 months out that are driving that as well. What I'd say is, just as the backdrop, I would really underscore we see the credit environment as extremely benign right now. And I do think that the trends in the credit line are going to be more a function of growth in the portfolio and the seasoning of that growth and not really reflective of any deterioration that we see in the environment.

James Friedman
Susquehanna Financial Group LLLP

Q

Got it. And my follow-up. So, Diners, not to be overlooked, had one of its better quarters in a while, 6% growth. Any commentary there? I don't remember if the comp was easy or is there something more structural in the execution that's improved?

David W. Nelms
Chairman & Chief Executive Officer

A

I think that we're – two things have happened. One is that there's been a fair number of transitions away from Citibank franchises into other hands and other people that maybe were a little more focused on growing in some of those markets. And I'd say that transition has now run its course. But the second thing is we've got – we've had some important new signings that we've talked about in recent years, the largest issuer in China is [indiscernible] (43:15), the largest issuer – credit card issuer in India is our Diners Club franchise there. And so players like that is what really helped drive some of the volume by putting on lots of new cards, growing sales, and certainly by far the growth is coming out of the Asia area more than anywhere else in the world right now.

James Friedman
Susquehanna Financial Group LLLP

Q

Copyright © 2001-2016 FactSet CallStreet, LLC

Thank you.

David W. Nelms
Chairman & Chief Executive Officer
A

Sure.

Operator: The next question is from John Hecht from Jefferies.

John Hecht
Jefferies LLC
Q

Afternoon, guys, thanks for taking my questions. I guess, just back a little more details in some of the growth and the new customer acquisitions in the quarter. Number one, can you tell us what are the characteristics of the new customers? Any characteristics sort of by credit type or channel of customer acquisition? And then follow-on would be – I'll wait for the follow-on after I get the answer to that one.

David W. Nelms
Chairman & Chief Executive Officer
A

I'd say there's not a big change on – credit is pretty stable. The average FICO is slightly down over the last few years just as we've found that this new environment appears to be more here to stay. And so at the margin, we could lean a little more into FICO scores. But, generally, the quality of – the composition of the customers is very consistent with what we've pursued in the past. We're probably slightly heavier in students than we used to be because that's a really important source of ongoing new accounts and relationships.

We've got some new products like our Secured Card that allows us to approve people that can't be approved without the security. And so we also have our Miles Card that appeals to a little higher spending customer, generally. But both of those portfolios are so small that at this point they're not really moving the needle. So overall consistent.

John Hecht
Jefferies LLC
Q

Okay. Thanks. And then, just with respect to the ramp of a new revolver customer, what's the utilization rate in the early months and when does the typical revolver customer reach peak utilization? And has that changed over the past year or two?

David W. Nelms
Chairman & Chief Executive Officer
A

I would say that as we shifted from being a bit more balanced transfer focused to more cash rewards focused, we're seeing actually a little faster sales growth and a little slower immediate loan growth out of the blocks. But what we are expecting is that the balance transfers expired in the past. And we usually saw some paydown at that point and we have a fewer of those to expire. So the loan build, we think will continue, and continue to build. And so we tend to get to pretty high – to a fairly typical maturity around year one at the 12-month mark. And generally, our loan average balances continue to grow from that point, but more modestly.

John Hecht
Jefferies LLC
Q

Great. That's very helpful. Thank you.

Copyright © 2001-2016 FactSet CallStreet, LLC

David W. Nelms
Chairman & Chief Executive Officer

A

Sure.

Operator: The next question is from Bob Napoli from William Blair.

Bob P. Napoli
William Blair & Co. LLC

Q

Thank you. On the student loan business, any thoughts that you can give us, updated thoughts, on the opportunities that you have in that business? We're obviously going through a political season. Thoughts on risks to being able to grow that business? And how do you feel about that business today versus in the past? And [ph] won't you get (47:32) that can contribute to your 4% to 6% growth?

David W. Nelms
Chairman & Chief Executive Officer

A

Yeah. I continue to feel good about it. One of the things that will be a bit helpful is that the organic business is becoming a higher and higher part of the mix. And so when we bought those two portfolios from Citi, they were large portfolios and they're continuing to pay down as you'd expect. But as they become a smaller and smaller part of the mix, the overall loan growth within the student loan business, I believe, can accelerate a little bit.

I'd say overall there are certainly risks. As you say, it is a bit of a hot button. Politically, there tends to be confusion between the large federal student loan program, which is most of the lending and it's not underwritten and has no publicized credit issues versus the private loans, which are continuing to perform well. But sometimes people in the press will mix up those two things. And so I still believe that there's opportunity that private student loans only make up about 6% of new student loan originations. And if the government ever pulls back at all, that could be an opportunity for accelerated growth.

I don't think we're at that point right now. But some day that may happen, I believe. But there's also plenty of scrutiny around that business because it's very important. But as long as tuition continues to grow faster, I think there's a need for it. Our loans perform well. So I am still quite bullish on the business.

Bob P. Napoli
William Blair & Co. LLC

Q

Okay. Thank you. And a follow-up question. Just another credit question, if you would. Credit cycle. Every time somebody in the industry announces slightly higher credit losses, the market gets really nervous. And if you look back over the last 30 years of credit cycles, we're going to have another credit cycle. You guys are clearly saying that you see benign credit. If we stay in this low growth economic environment without any economic shocks, I mean, under this type of a scenario, what do you feel – it sounds like the industry is loosening its credit box a little bit. Your FICOs are down a little bit. JPMorgan talked about expanding the credit box. Where do you think the credit cycle – is there a credit cycle? Or do you think credit losses will stay around the current range? Just any thoughts? What are normal? What is normalized credit for Discover? Is it lower than it used to be?

David W. Nelms
Chairman & Chief Executive Officer

A

Well, yes, there's still a credit cycle. It's a cyclical business. The new normal? I don't think we're going to know for quite some time. It's lower than it used to be. But we're going to have to actually go through a cycle or two to fully

Copyright © 2001-2016 FactSet CallStreet, LLC

understand it. And that's why – and I would just say that our management team has been through a bunch of cycles, and it's one of the reasons that we still are keeping very disciplined. We'll make some changes at the margin, but I think you're not hearing us say that there's some big opportunity we're going to loosen up because we think the credit cycle's over – credit cycles are over.

So I generally – people that grow really fast in loans for a short period of time, it comes back and bites them. And that's one reason we have a top-end to our loan growth projections. We don't think growing more than about 6% at the high-end can be done today without taking too much credit risk.

R. Mark Graf
Chief Financial Officer & Executive Vice President
A

Yeah. I would just follow on to that just to make sure we're calibrating correctly. When David talks about a modest expansion of the credit box, I'd really utilize that modest word. I think historically what we've told folks is line-weighted FICO in the card business is around 732, something like that for the portfolio. If you drew a bull's-eye that would say 7 basis points or 8 basis points around that number, that's where your line-weighted originations this year would be. So you're not talking about a significant expansion of the credit box by any stretch of the imagination.

Operator: The next question is from Eric Wasserstrom from Guggenheim Securities.

Eric Wasserstrom
Guggenheim Securities LLC
Q

Thanks very much. Historically, Mark, I think you've indicated that about half your card growth comes from new accounts and half from existing accounts. And I'm wondering if that dynamic has changed at all given the nature of the accounts that you're currently originating?

R. Mark Graf
Chief Financial Officer & Executive Vice President
A

I would say we're seeing a little bit more of it. It's doing a little bit more than new account side of the equation right now. I don't think it's all the way to 60/40, but it's trending in that general direction, really favoring the new accounts, driving the loan growth. And I think that's largely for the reason that David noted a moment ago, those new accounts aren't coming on with as much BT as they historically did. So they have more open to buy, and the engaged behavior, we're seeing out of those accounts as they're coming on the books, they are comprising a greater portion of the sales growth right now.

Eric Wasserstrom
Guggenheim Securities LLC
Q

And as it relates to the rewards costs, I think you indicated that some portion of it does relate to maintenance of your current book. Do you consider that to be a cyclical phenomenon or more of a secular one?

R. Mark Graf
Chief Financial Officer & Executive Vice President
A

What exactly do you mean by maintenance, Eric?

Eric Wasserstrom
Guggenheim Securities LLC
Q

Copyright © 2001-2016 FactSet CallStreet, LLC

I think earlier in the commentary, David mentioned that the higher rewards cost in the period had to do both with acquisition as well as with traditional rewards, and I'm wondering if that increase in the traditional rewards is a cyclical or secular dynamic? In other words, is it just a function of the current competitive environment? Or is it the new cost of doing business over the long term?

David W. Nelms
Chairman & Chief Executive Officer

A

I see. Well, I do think it in part it's a cost of doing business. But it's because it works. I think you can go to an unsustainably high level, which we're not prepared to do. But it has just fantastic appeal to prime card customers. And so people have been copying what we've been doing for a – since we started. And in some cases they may be taking it to an extreme. If you look at what's driving our rewards cost, there's a certain sort of more permanent shift as we move from what used to be up to 1% to flat 1%. And then, there are quarterly changes based on the 5% program, the double match on new accounts. And those can go up or down over time.

Eric Wasserstrom
Guggenheim Securities LLC

Q

Thanks for the explanation.

Operator: The next question is from Jason Harbes from Wells Fargo.

Jason E. Harbes
Wells Fargo Securities LLC

Q

Hey, guys. Thanks for taking my question. So you paid out essentially all of your earnings during your last CCAR cycle, and yet the capital ratio remained essentially stable at about 14%. And I think you've said in the past that longer term you think 11% would be the right level to run the business. So I'm just curious what sort of timetable you think you might be able to get there?

R. Mark Graf
Chief Financial Officer & Executive Vice President

A

Yeah, I would say it's hard to say, Jason, is the honest answer to the question. I think we're comfortable with loan growth in the range we're seeing it right now. We'd like to see it be a little higher into the range, obviously, as David noted, but I think loan growth is consuming a chunk of that. I feel really good about going through the CCAR process and producing one of the highest yields among all the participants, buying back close to 8% of shares on an annualized basis, if you look at last quarter.

I'm hard-pressed to see how to craft a path for you for how long it's going to take to get there. I think the one thing we've said over and over again and we'll commit to it is we're not going to do anything crazy with it just because we have it. We recognize it's our investors' capital and not ours and we will treat it appropriately. We continue to look for ways to return more of it. Every year we've gotten more aggressive in that CCAR ask. Over the year prior, I think a reasonable person could assume that that process wouldn't deviate in our current thoughts as we look forward either. But exactly how long it's going to take to get there, I just don't know how to answer that question.

Jason E. Harbes
Wells Fargo Securities LLC

Q

Fair enough. And just as an administrative follow-up, it looks like the tax rate, if we strip out the benefits, has been running around 36% to 37% so far this year. Is that a reasonable run rate going forward?

Copyright © 2001-2016 FactSet CallStreet, LLC

R. Mark Graf
Chief Financial Officer & Executive Vice President
A

Yeah. I think that's a reasonable number to utilize going forward.

Jason E. Harbes
Wells Fargo Securities LLC
Q

Okay. Thanks.

Operator: Our last question will come from the line of Moshe Orenbuch from Credit Suisse.

Moshe Ari Orenbuch
Credit Suisse Securities (USA) LLC (Broker)
Q

Great. Thanks. And I would add my congratulations on the CCAR performance.

David W. Nelms
Chairman & Chief Executive Officer
A

Thank you.

Moshe Ari Orenbuch
Credit Suisse Securities (USA) LLC (Broker)
Q

You're very welcome. Question has been batted around in a bunch of ways and you did mention that some of the volume decline or decline in the growth rate was a result of older customers taking their volume to more aggressive offers. Is that something that you see as accelerating or decelerating? Are you going to take steps to deal with that? How should we think about that over the course of the next few quarters?

David W. Nelms
Chairman & Chief Executive Officer
A

Well, I think that we are taking some steps, but frankly, we're not willing to match unprofitable offers. And so my best guess is that it would be relatively stable. And some of the actions we're taking would probably prevent it from accelerating more.

Moshe Ari Orenbuch
Credit Suisse Securities (USA) LLC (Broker)
Q

Got it. Thank you very much.

David W. Nelms
Chairman & Chief Executive Officer
A

Sure.

Operator: At this time, I'd like to turn the call over to Bill Franklin for final remarks.

Bill Franklin
Vice President-Investor Relations

Copyright © 2001-2016 FactSet CallStreet, LLC

We'd like to thank everyone for joining us. If you have any other follow-up questions, feel free to call the Investor Relations department. Have a good night.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone have a great evening.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2016 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.