

01-Apr-2015

Monsanto Co. (MON)

Q2 2015 Earnings Call

CORPORATE PARTICIPANTS

Laura J. Meyer
Head-Investor Relations

Hugh M. Grant

Chairman & Chief Executive Officer

Brett D. Begemann

President & Chief Operating Officer

Pierre C. Courduroux

Chief Financial Officer & Senior Vice President

OTHER PARTICIPANTS

Don D. Carson

Susquehanna Financial Group LLLP

Vincent Stephen Andrews

Morgan Stanley & Co. LLC

Jeffrey J. Zekauskas

JPMorgan Securities LLC

Kevin W. McCarthy

Bank of America Merrill Lynch

Robert Andrew Koort

Goldman Sachs & Co.

Christopher S. Parkinson

Credit Suisse Securities (USA) LLC (Broker)

P.J. Juvekar

Citigroup Global Markets, Inc. (Broker)

David I. Begleiter

Deutsche Bank Securities, Inc.

Mark W. Connelly

CLSA Americas LLC

Michael L. Piken

Cleveland Research Co. LLC

Joel D. Jackson

BMO Capital Markets (Canada)

MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to Monsanto's Second Quarter Fiscal Year 2015 Earnings Call. At this time all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Laura Meyer, Investor Relations Lead for Monsanto. Thank you. Ms. Meyer, you may begin.

Laura J. Meyer

Head-Investor Relations

Thank you, Rob, and good morning to everyone. I'm joined this morning by Hugh Grant, our Chairman and CEO; Brent Begemann, our Chairman and Chief Operating Officer; and by Pierre Courduroux, our CFO. Also joining me from the IR team are Tim Boeker and Priyal Patel.

Our second quarter call provides our first view into how the Northern Hemisphere season is shaping up, and today we will be sharing a business and strategic overview as well as a summary of our second quarter results and a full-year outlook. This call is being webcast and you can access the webcast, supporting slides and the replay at monsanto.com.

We've provided you to day with EPS measures on both the GAAP and ongoing business basis. Where we refer to non-GAAP financial measures, we reconcile to GAAP in the slides and in the press release, both of which are on the website.

This call will include statements concerning future events and financial results. Because these statements are based on assumptions and factors that involve risk and uncertainty, the company's actual performance and results may vary in a material way from those expressed or implied in any forward-looking statement. A description of the factors that may cause such a variance is included in the Safe Harbor language, in our most recent 10 -K and in today's press release.

First and foremost, let me review our second quarter results as shown on slide four. Our second quarter ongoing earnings per share is \$2.90, which is within the range we outlined at our first quarter call. Our free cash flow year-to-date is \$986 million as compared to \$290 million year-to-date in the prior-year, reflecting the absence of The Climate acquisitions and the Novozymes transaction in the current fiscal year. These results, combined with our revised outlook for the year, still give us confidence that we are within the guidance ranges outlined at the beginning of the fiscal year, namely \$5.75 to \$6 of ongoing earnings per share and \$2 billion to \$2.2 billion of free cash flow, although now trending to the low end of each of the respective ranges as shown on slide five.

With that brief summary, let me hand it to Hugh to add context with the strategic outlook.

Hugh M. Grant

Chairman & Chief Executive Officer

Thank you, Laura, and good morning to everybody on the line. As we look across the current landscape, we clearly acknowledge the reality facing the global players in the ag industry, namely declining corn acres and rapidly weakening foreign currencies. These industry-wide economic challenges have led us to point to the lower end of

our earnings per share and cash flow guidance. And yet even at the low end of our original guidance range, we still expect double-digit ongoing earnings per share growth, reaching a new record level for annual earnings per share for our business.

Two years of spectacular growing conditions have translated into the current oversupply situation for corn, and in response acres continue to decline while demand from feed accelerates to rebalance supply. In tandem, farmers have sharpened their pencils across their input costs as they in turn balance risk with returns. Even so our grower customers continue to ask us to innovate in agriculture. They're seeking yield and productivity tools like newer hybrids, technology traits and digital agriculture tools, clearly reflecting that yield and productivity will differentiate them in times of compressed margins.

Further, while we continue to monitor these headwinds and mitigate where feasible through the management of our expansive and a balanced product portfolio, we won't let this distract us from the business execution that's critical to our longer-term growth. And it's that execution, combined with our innovation, which truly differentiate us. The accomplishments in the first half of the year are a testament to that commitment to seamless execution on the variables that we control, as seen in slide five. Intacta acreage now stands at 15 million acres for fiscal year 2015 and with seed production in place for targeted penetration of 30 million acres for fiscal year 2016, we're well down the path of this 100-million-acre opportunity.

The excitement for the Xtend platform is building, both with growers and internally as we continue to make strong progress. Bollgard II XtendFlex cotton has now sold out for our limited commercial introduction and plans for more than a 3 million acre launch and Roundup Ready 2 Xtend soy beans in 2016 are on pace for this nearly 200-million-acre opportunity. Our footprint continues to expand in corn, even with a smaller acreage base, and growers continue to embrace the latest technologies and hybrids. Our investment in Climate and biologicals has ramped and with the focus on penetration and engagement, the next generation of Climate PRO is now reaching the hands of growers as we speak.

Our organization has managed spend to allow for accelerated funding of these new platforms like Climate, and we now expect full year operating expenses to be down slightly. And finally, we continue to deploy our capital effectively and return value to our shareowners with a \$6 billion accelerated share repurchase that we expect to fully close in April, a significant step in our commitment towards a net debt to EBITDA ratio of 1.5.

So the fundamentals of our business are unchanged, and these accomplishments are the cornerstones for our long term growth drivers. The annual dynamics of agriculture may cause our rate of gain to be uneven at times, but it doesn't change the trajectory for growth, particularly given the backdrop of long-term demand for both corn and soy beans.

As shown on slide six, we continue to see annual demand for corn increasing by more than 500 million bushels per year while soybean demand grows by more than 200 million bushels per year. Recent WASDE estimates now indicate that the global demand requirements for corn have grown by nearly 900 million bushels as compared to the prior season. And on the supply side, we now estimate that at least 11 million to 12 million acres of corn will have come out of production in the primary markets since 2013. The efficiency of the global corn market's undisputed, as is a growing population's demand for more protein and more grain.

As always, we develop much more than the usual annual ebbs and flows of agriculture. Our focus is on the innovation that improves and protects the yield for the grower through a multitude of conditions and in an increasingly balanced portfolio. This foresight in the development and investment in soy beans has paid off, and we expect it will continue as the decade of the soybean marches forward.



Roundup Ready 2 Yield, Intacta and Xtend remain very much on track for their expected long-term growth trends. While the former two products provide current year earnings growth as acres rotate from corn to soy beans, and beyond the fast-growing soybean growth drivers, we're anticipating the next generation of solutions across six broad technology platforms, expanding from the core seed and traits platform, as shown on slide seven. Today we're adding to that foundation with complementary chemistries and seed treatments, biological solutions, and finally, digital agriculture for the application of data science through our Climate offerings can enhance each and every decision in a grower's operation.

As we look across this pipeline of new products as well as our existing portfolio and brand [ph] franchisees (9:03), we continue to attract and pursue significant licensing opportunities, and some of that could come as soon as this year. We remain strategically aligned to the long-term horizon, as demonstrated by our disciplined near-term execution. Agriculture remains an excellent space for investment given the continuing long-term demand projections and our consistent delivery of innovation that so effectively aligns to those trends. Near-term conditions require measured adjustments to spending and risk management. As shown on slide eight, we're continuing the investments in the platforms required to deliver our long-term commitment to more than double our ongoing earnings per share by 2019.

So with that, let me hand over to Brett for the operational update that underpins these first half accomplishments and our long-term strategic outlook.

Brett D. Begemann

President & Chief Operating Officer

Thanks, Hugh, and good morning to everyone on the line. Despite the industry cross current of lower global corn acres, I remain extremely confident in the foundation of our global corn business and the long-term mechanisms for growth. As I said before, our corn yield performance has never been better, our multi-pronged go-to-market strategy continues to serve us and our customers well and the proof points are in the results we see in this quarter and in the outlook for the rest of the year. Let's take a look at the specifics, as shown on slide nine.

At the halfway point in our fiscal year, we have now wrapped up our first season in Brazil and capped it with more than two share points of growth in our branded market share in the summer season that we now believe contracted closer to 13%. We also had a small but meaningful launch of our first triple stack product in corn, continued upgrades to our second and third generation traits and nice price/mix lift in our germplasm excluding currency effects. Looking forward, the Brazil safrinha season is underway and we expect flat corn acres and similar trends in our performance from the first season in Brazil. And in Argentina, triples continued to be the product of choice and we held our strong share position on an acreage base that was 16% smaller than last year.

Within the U.S. corn seed business, as we've been indicating, our results year-to-date reflect the timing shift of our Channel brand businesses from second quarter to third quarter. We are encouraged by the changes we've made in this business and we still expect roughly \$275 million of gross profit, mostly in corn, to move between quarters based on our view into our order books. Beyond this timing shift, the reduced refuge family of products is maintaining its percentage of the portfolio from the prior year. We continue to see conversion to our dual mode of action products, like SmartStax and Double PRO, as well as improved uptake of our DroughtGard hybrids. Although, on a corn acreage base, we now see trending closer to 87 million to 88 million acres.

Demand for the combination of one-year and year two DEKALB hybrids is expected to be approximately 40% of the total portfolio with particularly strong interest in the more familiar high-performing year two products. In the spirit of dollar cost averaging and due to the consistent exceptional performance in some of our proven hybrids as depicted on slide 10, we did see some higher-than-normal demand for this generation at the expense of the

midpoint of the portfolio. While this is expected to migrate the germplasm price/mix lift to the low single digits this year, the general portfolio mix curve is intact and demonstrates that even in this environment growers are demanding the newest hybrids, giving us confidence in the long term outlook for this business.

Across Europe and South Africa we expect to hold or grow share in a region of declining corn acres, and when setting aside the punishing currency effects and despite the challenging competitive dynamics, it appears that our germplasm price/mix lift will be positive across the region for the year. In Asia, we continue to see adoption of traits in the Philippines and we recently received approvals for our first biotech traits in corn in Vietnam, allowing us to move forward with pre-commercial trials.

Like much of the rest of the world, we expect to grow share and have positive lift in our germplasm price/mix, exclusive of parity, as we look across all of Asia. Overall, we remain on track to hold or grow our branded share footprint in every major market in the face of declining corn acres and exclusive of currency headwinds, we expect to deliver positive germplasm price/mix lift for the full year. This is an outstanding achievement in the time of compressed margins for our grower customers, reflecting their continued demand for high performing seed technology.

Even more compelling is the outstanding performance we continue to see in our soybean business, which is proving critical in this challenging environment. The power of a balanced portfolio is evident as our soybean business continues the momentum that has carried from a record fiscal year 2014 and an excellent first quarter. Across South America, as seen on slide 11, our value proposition for Intacta delivered and we reached a record 15 million acres in our second year of launch, a five-fold increase over the first year. As we review the seed production plans across the multipliers and the licensees for the next season, we now believe we will have Intacta available in 150 varieties for Brazil alone. This edition of 50 new varieties in Brazil will be enough to fully serve all maturity zones for the third year of commercialization. Overall, we now expect to penetrate an estimated 30 million acres with Intacta in South America in fiscal year 2016, a meaningful tipping point in the 100-million-acre opportunity for Intacta.

Backing up these plans is yet anothery ear of strong product performance. As shown on slide 12, our early yield results reveal that we once again delivered more than a four-bushel average yield advantage with Intacta soybeans over comparisons of Roundup Ready soybeans managed by insecticides. In addition, we continued to see a reduction in insecticide sprays and insect damage with the use of Intacta soybeans, clearly visible in the photo from this year's production. As we continue to plan for the expansion of our Intacta business in South America, we've also advanced our negotiations with the grain traders and elevators and have now secured more than 90% of the origination points across Brazil to allow for a very robust point of delivery payment system.

Approximately 95% of the Intacta soybeans planted were paid for upfront this season in Brazil, and we expect a similar pattern of certified seed sales for next year. Nonetheless, securing options to pay at the end of the season with the delivery at the elevator provides our growers with the choices they value. And in Argentina, not only are we seeing Intacta penetration for the first time, but the point of delivery system implementation is off to a good start in its inaugural season. We have now secured agreements with more than 95% of the origination points in the North and more than 70% of the growers pay for their seed purchases in advance, again providing growers with choice in how they secure this game-changing technology.

In the U.S., the combination of shipments and our order book leads us to conclude that soybean a cres and our share are both growing, with farmers continuing to choose Roundup Ready 2 Yield as the product of choice across both our branded and our licensed footprint. Preparations for a record traitlaunch of Roundup Ready 2 Xtend soybeans continue as we await final regulatory approvals and secure seed production acres for what we expect to be a greater than 3-million-acre launch in 2016 and available in more than 60 varieties, as shown on slide 13.

We see strong alignment from our licensees in the plans for launch and our remaining regulatory approvals are proceeding. We have submitted all the required data to the China Ministry of Ag and they have all necessary information required to grant an approval. Again, we are maintaining our focus on execution for this next wave of growth in our soy bean business, one whose acre opportunity is almost double that of Intacta, as the need for flexible, exceptional weed control reaches across the Americas.

Cotton is also notable this quarter because we are sold out for the limited commercial introduction of Bollgard II XtendFlex on more than 500,000 acres as shown on slide 14. We announced our pricing of \$6 an acre for the added value from flexible improved weed control along with a full XtendFlex chemistry rebate to reflect that growers are unable to use dicamba over-the-top as we await final regulatory approvals. Interest in the technology has been tremendous, as demonstrated by the sold-out position. Altogether, more than 1,600 growers and stakeholders have attended grower education sessions across the South since the 1st of January. This limited introduction is allowing our grower customers to experience the improved performance of new Bollgard II XtendFlex cotton varieties as well as the benefits of two of the three herbicide tolerances that are currently available for use with this product, namely glyphosate and glufosinate tolerance. And based on the look into our order books, we expect these new varieties to drive back-to-back share growth in the Deltapine brand in the U.S.

We have also rolled out our Climate PRO offering for the season, featuring the newly-improved nitrogen and field health advisors, and we recently enhanced our introductory pricing of \$3 per acre through marketing programs that are driving penetration and engagement with the technology. At a time when a grower's attention to every line of their P&L is heightened, the meter-by-meter optimization our precision tools have to offer becomes even more beneficial. The application of data science to our extensive field trial and genetics data through the development and application of software has the potential to create unprecedented value for growers.

To facilitate this rollout, we have already trained more than 1,000 selling agents across our broad retail partnership, touching virtually every corn and soybean acre in the U.S. And while it is too early to estimate the acres for Climate Basic or Climate PRO for this season, we remain committed to our targets to increase our active Basic users by 50% from our fiscal year 2014 base of 30 million acres and to more than double our 1 million premium acres from fiscal year 2014 as shown on slide 15.

In our Ag Productivity business, we are in the midst of the largest quarter of the year in the Northern He misphere as we provide customers with our branded products for their critical over-the-top sprays and their Roundup Ready crops. As we guided, our volumes continue to shift to the second half of the year, closer to these key application windows, as a greater portion of our business is sold as branded volume this year. This shift in volumes to the latter half of the year also explains the majority of the decline in the business year-to-date. In addition, we're seeing some of the anticipated softening in price at the retail level and have followed suit with low to mid-single digit price adjustments to maintain a small premium over the generics, consistent with our strategy.

I remain very optimistic about the business and our outlook. Our accomplishments year-to-date are impressive with 15 million acres of Intacta penetration, Climate product introductions, Xtend launch plans and early share growth and price/mix lift in corn, despite substantial currency and corn acreage headwinds. Further, we will continue to leverage the benefits of a balanced portfolio as the Decade of the Soybean continues with expected Roundup Ready 2 Yield acreage expansion, expected branded seed share growth and production plans to potentially supply 30 million acres of Intacta in South A merica and a greater than 3-million-acre launch of Roundup Ready 2 Xtend soy beans in 2016.

With that, I'll pass it to Pierre for the financial update.

Pierre C. Courduroux

Chief Financial Officer & Senior Vice President

Thanks, Brett, and good morning to everyone. As we sit at the midpoint of our fiscal year, we can now reflect upon the accomplishments of the first half while refining our strategy and outlook for the rest of the year. Intacta has been a tremendous success in its second year of commercialization, our corn share footprint has grown in the Southern Hemisphere this season, and Roundup Ready 2 Xtend soybeans continues to meet the milestones necessary to propel it forward to what is now expected to be a more than 3-million-acre launch in 2016.

We have responded to the weakening of foreign currencies and declining corn acres with reduced operating spend while still spending on newest platforms, namely Climate and biologicals, at a pace far ahead of last year's. And finally we remain committed to our capital allocation strategy with the expected full closure of our \$6 billion accelerated share repurchase in April. Altogether, we continue to deliver on the key drivers of our long term growth plans, remaining acutely focused on the variables we control and true to our strategy of innovation through a balanced portfolio. There is no doubt, however, that the further weakening of foreign currencies has led to what now appears to be a \$0.35 to \$0.40 headwind for this fiscal year, primarily concentrated in corn gross profit and to a lesser degree in Ag Productivity gross profit, and driven by the deterioration of several key currencies versus the dollar very close to today's rate.

These currency headwinds, coupled with a more certain decline in corn acres and some moderation of corn germplasm mix lift now means that we are trending to the low end of our original guidance range of \$5.75 to \$6 of [ph] ongoings (24:30) per share, as well as to the lower end of our free cash flow guidance of \$2 billion to \$2.2 billion as shown on slide 16 and slide 17. Within that guidance, we now expect that our Seeds and Genomics gross profit growth will migrate to low to mid-single digit, with the expected growth in soy bean gross profit more than offsetting the anticipated slight decline in corn gross profit resulting from the currency and acreage headwinds.

Ag Productivity gross profit is expected to decline approximately 10% versus prior year due to anticipated generic price softening and an incremental 2% to 3% due to deteriorating currencies. Total operating expenses, including the new platforms, are now expected to be down in the rate of 3% to 5% versus the priory ear as we further tighten our spending in light of the current trends and as we benefit from the expected weaker foreign currencies in our operating expenses. Interest expenses remain consistent with prior expectations, reflecting the additional debt and our progress towards our stated goal of a net debt to EBITDA ratio of 1.5, and other expenses are expected to be roughly a third of the prior year as we are anticipating less of a devaluation of the Argentine peso in fiscal 2015.

Meanwhile, the tax rate has migrated to the low end of our original guidance of 28% to 30% through continued expected discrete tax benefits. When converting this full year guidance into a quarterly look, we expect around 80% to 85% of the remaining earnings per share to fall into the third quarter, with a residual in the fourth quarter. In Q3, we expect [ph] the sheet (26:18) of roughly \$275 million of gross profit in the Channel seed business to benefit our results, and in the fourth quarter we expect a strong start to our South American business, more normalized corn returns in the U.S., continued momentum in soybeans and a very disciplined management of our operating expenses to drive the growth.

If we take a deeper dive into the margins and the outlook for the year, the success of our Intacta franchise and continued demand for Roundup Ready 2 Yield is clearly reflected in the nearly four-point improvements in soy beans margins year-to-date. And while we expect that to moderate some, we do expect positive marginal lift in soy beans for the full year. For corn, the margins are down roughly 2 points year-to-date as a result of the shift in the higher margin Channel business to Q3, the continued year-over-year decline in the trait pricing for Brazil and the higher-than-expected cost of goods sold in South America. We continue to convert the Brazil corn seed business to higher cost, single cross-trait hybrid, and while this has widened our performance advantage and

enabled share growth, it does increase our cost of goods. This, combined with the flooding in Argentina during last production season, has elevated our cost in corn year-to-date.

By the end of the year, we do expect corn gross profit margins to be relatively flat with the prior year as South America becomes a smaller component of the total mix of our corn business for the full year. Altogether, when looking at the Seeds and Genomics segment as a whole, we expect roughly 1% margin improvement for the full year, reflecting the benefit of the broadening soybean portfolio.

The last thing I would like to share with you today is our outlook on free cash flow. We are now tracking to the lower end of our original free cash guidance of \$2 billion to \$2.2 billion, as we now estimate that cash flows from operations will be \$3 billion to \$3.3 billion, with cash flows from investing activities expected to be a use of cash of \$1 billion to \$1.1 billion. The decline in our operating cash flow projections is twofold. Our projected net income is tracking lower for the reasons we mentioned earlier, primarily currency and acreage related, and our inventories have increased as corn acres have retreated more than we originally planned and corn seed production yields were higher than expected.

Looking ahead to fiscal year 2016, this continued decline in corn acres and strong production yield from last season, as seen across the industry, is translating to a reduced corn seed production plan which we are just finalizing for the Northern Hemisphere. Our current inventories are in excellent conditions and will carry to the next season, topped off by the smaller production plan from this summer. While this is the optimal choice from a cash and inventory management perspective, this will result in higher cost of goods for fiscal year 2016, after which we expect to see some normalization in the size of our production plan and the benefit of lower hedged commodity prices.

In response to this expected reduction in cash flows from operations we are being more diligent in the management of our investing cash flows, allowing us to deliver an expected free cash flow of at least \$2 billion. With this continued excellent conversion of our earnings into cash, we remain committed to returning value to our owners through our capital allocation strategy. I'm pleased to announce that half of our \$6 billion accelerated share repurchase plan has officially closed, resulting in the delivery of an additional 6.6 million shares. We expect the remaining \$3 billion of the ASR to close in April with similar results.

Following the close of our third quarter, we plan to evaluate our next steps in advancing to a net debt to EBITDA ratio of 1.5 after the full closure of our \$6 billion accelerated share repurchase and after we have a clear line of sight on our short and midterm cash needs at the end of our two most significant quarters.

Similar to the industry, we are seeing significant currency and acreage headwinds in fiscal year 2015, but we also see the confirmation of the long-term growth drivers that support our gross profit expansion through a global balanced portfolio while still delivering on a new record for earnings per share this year. When combined with our disciplined balanced approach to funding our growth platforms and our continued commitment to effective capital allocation, I am confident we are on track in the first year of our five-year plan to more than double ongoing earnings per share.

Thanks, and I'll turn it back to Laura for the Q&A.

Laura J. Meyer
Head-Investor Relations



Thanks, Pierre. With that, we'd now like to open the call for questions. As we typically do, I'll ask that you please hold your questions to one per person, so that we can take questions from as many people as possible. You're always welcome to rejoin the queue for a follow-up.

Rob, I think we're ready to take questions from the line.

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now be conducting the question-and-answer session. [Operator Instructions] Thank you. First question today is coming from the line of Don Carson, Susquehanna International. Please proceed with your question.

Don D. Carson

Susquehanna Financial Group LLLP

Yes. Thank you. Question, Pierre, on the foreign currency impact. Are you saying that without the incremental \$0.15, \$0.20 of foreign currency pressure that basically your guidance would be unchanged? And then a specific impact on corn: is the slight reduction in corn gross profit due primarily to foreign exchange, or what are the other drivers in terms of price, volume and cost of goods sold?

Pierre C. Courduroux

Chief Financial Officer & Senior Vice President

So, Don, to your first question, I mean, the way you look at it is definitely a way to think about it actually because we point now to the low end of our guidance, and I mean, the guidance range was about \$0.25. So, yeah, I would agree with you on this one.

Regarding the second question, regarding corn gross profit, so the way we think about it actually is when you look at the first half, more than \$200 million of the difference we see versus last year is related to the shift of our Channel business from Q2 to Q3, and the rest of the difference is basically split two-thirds related to currency and acres headwinds, so about two-thirds of the remaining difference, and one-third is related to the trait pricing and COGS we referred – in South America that we referred to in the prepared remarks. Looking into the full year, we expect the impact of acres and currency to be more than \$300 million. This is how we think about it right now.

However, we expect also to see the combined benefits of germplasm price lift and the share gains we are anticipating resulting in about more than \$200 million of benefits. So that's the way we are thinking about the corn gross profit going forward, and the difference we may see at the end of the day will be the balance in between the soy beans, which today we anticipate to be more than offsetting this decline in corn, it's going to be the difference in between the soybeans and the corn that's going to make the final number.

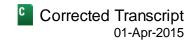
Don D. Carson

Susquehanna Financial Group LLLP

Okay. Thank you.

Operator: Our next question comes from the line of Vincent Andrews with Morgan Stanley. Please proceed with your question.

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Vincent Stephen Andrews

Morgan Stanley & Co. LLC

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Thanks, and good morning, everyone. Question on – obviously Intacta's going to be big in the fourth quarter, the Brazilian reals had a big move, and who knows whether it's done or not. But could you talk a little bit about what your opportunity is to address the pricing of that product, both in the near, medium and long term, as it relates to the real?

Hugh M. Grant

Chairman & Chief Executive Officer

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Yeah, Vincent. Thanks for your question. We're delighted with the performance and the ramp and yield is now – I referenced this in the slide, yield is not coming in, the early read was 12%, 13% and the harvesters were beating our four-bushel goal. So still rolling outprice, Brett, but what was the early read on price?

Brett D. Begemann

President & Chief Operating Officer



Yeah, good morning, Vincent. The way we're looking at it now is let's keep in mind that strategically what our intent has been with Intacta from the get-go, and that's been to introduce it into the marketplace in a very aggressive fashion, going from 15 million acres headed to 30 million acres for next year, which means that we're expecting a very aggressive ramp-up. As we look at pricing, as Hugh mentioned, we've had another spectacular performance year with Intacta. We're highly confident in the performance going forwards. And as we look to the future, we will be taking that into consideration with pricing and I would say at this point in time we're leaning into looking upwards on the price curve.

The thing that I would remind you is soybeans, we keep talking about the Decade of the Soybeans, and we've got an incredible next generation Intacta already coming. So as we think about this over the longer term, Vincent, we're thinking about moving Intacta very aggressively into the marketplace, building out that position. And as we bring up the price on Intacta we'll be thinking about the next generation to move that market as well.

Hugh M. Grant

Chairman & Chief Executive Officer



Vincent, I'd just add one thing. We see phenomenal growth opportunities. We're in the ground floor of that growth. As we think about pricing that, I don't know if we'll fully offset the real devaluation, but we'll be very, very careful not to stall the growth opportunity by reaching for that incremental real. This is much more about philosophy and really growing that platform as fast as we possibly can.

Vincent Stephen Andrews

Morgan Stanley & Co. LLC

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Understood. Appreciate it. Thanks very much.

Hugh M. Grant

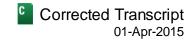
Chairman & Chief Executive Officer

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Thanks.

Operator: Our next question is coming from the line of Jeff Zekauskas with JPMorgan. Please proceed with your question.

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Jeffrey J. Zekauskas

JPMorgan Securities LLC

Hi. Thanks very much. I think your corn revenues were down 14% in the first half. Can you analyze that for us?

Pierre C. Courduroux

Chief Financial Officer & Senior Vice President

So as I mentioned, and I was referring to the gross profit impact of the — in the first half of the year, a big part of that is just the pure timing related to the move of our Channel business for \$200 million of gross profit. If you give and take a 60%-plus margin, you can get the impact on sales, and I don't have the number in front of me. And the rest of the difference, similarly upgraded for the guidance — for the margin, two-thirds of the difference related to currency and this one definitely hitting us pretty hard, and the acreage headwinds. So two-thirds of the remaining difference, and the last third is the trait pricing, which definitely on the sales line also has an impact when you look at Brazil, specifically. And this one, as you know, we talked about that during the first quarter, was related to the price adjustment in the market related to some of our competitors' issues with resistance there in Brazil.

Jeffrey J. Zekauskas

JPMorgan Securities LLC

Okay. Thank you very much.

Hugh M. Grant

Chairman & Chief Executive Officer

Thank you, Jeff.

Operator: Our next question is from the line of Kevin McCarthy with Bank of America. Please proceed with your question.

Kevin W. McCarthy

Bank of America Merrill Lynch

Yes. Good morning. A question related to U.S. corn seed. I think you had mentioned a slight mix shift from year one to year two hybrids. I was wondering if you've observed that sort of a shift in years past and throughout your experience and whether you could comment on what is driving it? In other words, it would seem economically irrational if the yield is there and the value is being shared with the customer. Thanks.

Hugh M. Grant

Chairman & Chief Executive Officer

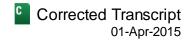
Yeah, Kevin, I'll — it's we've probably seen more of it this year than we've seen in a long time and I think it's a function of the euphemism of growers sharpening their pencil, number one, and number two, we had some really great products in that category, and they had, growers had fantastic experience with them last year and reached back for them. So it's the curse of having really great performing hybrids. I don't know if you'd add anything to that, Brett?

Brett D. Begemann

President & Chief Operating Officer

No, I think you covered it very well. I think, Kevin, if you look at our year one and year two products we're at about 40%, and plus/minus that's a reasonable number to think of; essentially every year that's been our experience is around that 40%. This year we got a little bit more of year two than we have in year one. Now here's my takeaway

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from it is farmers are clearly voting for our newest hybrids, and that's why I'm so confident in the strategy for pricing our germplasm is they're voting for the best. And what they're doing with their sharp pencil is saying well, may be two versus one, but they're not going backwards down the portfolio, and that's why the pricing curve's still intact.

Kevin W. McCarthy

Bank of America Merrill Lynch

Thank you very much.

Hugh M. Grant

Chairman & Chief Executive Officer

I think, just to add to Kevin's question, I think this year, if you can climb above the headwinds and get above the noise and look at the business, I think this last question really illustrates that even in tough times we see growers reaching for innovation and reaching for the really great performing hybrid. So in a tough ag environment, we feel really good that the model is still alive and well and that growers are selecting the best possible hybrids out there.

Operator: Our next question comes from the line of Bob Koort with Goldman Sachs. Please proceed with your question.

Robert Andrew Koort

Goldman Sachs & Co.

Thanks. Good morning.

Hugh M. Grant

Chairman & Chief Executive Officer

Good morning, Bob.

Robert Andrew Koort

Goldman Sachs & Co.

I was wondering if you could talk on Xtend a bit. I think may be your competitor in that arena suggested a retail price of \$12 an acre. Is that sort of order of magnitude of what you think the retail capture might be for Xtend? And do you have any regulatory hurdles to sell that product and get it qualified in South America? I know you mentioned China in terms of approving it, but what about for use in South America?

Hugh M. Grant

Chairman & Chief Executive Officer

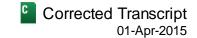
Yeah, so, Bob, thanks for the questions. I'll let Brett say a few words. The competitive pricing is news I haven't heard, but I mean, we're focused on our own franchise. Here's what I can tell you and we've mentioned this in the prepared remarks. Tremendous interest and enormous amount of pent-up demand. I wish we had it today, but tremendous grower interest, and I think we're going to be so much smarter with the, Brett said in excess of 0.5 million acres that are already committed. This thing sold out faster than a Rolling Stones comeback concert, so we'll see this fly off the shelves. Brett, a word on just that regulatory timetable and maybe how Latin America

Brett D. Begemann

President & Chief Operating Officer

A

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Yeah, thanks, Hugh. Good morning, Bob. I think the excitement around Xtend is as much or more than I've seen around any biotech launch we've ever had, and I've been around for all of them. And it's really a compelling vote of confidence by our growers and it also is the expression of a huge need. And that's demonstrated by how quickly we sold out of the XtendFlex varieties that we have available for Deltapine this year in the South. On Xtend soy beans, we're going to be ramping aggressively for an over 3-million-acrelaunch next year, which I'm highly confident will be in high demand by customers. We'll take full advantage of this year to do testing again, to look at the product and get farmer feedback as we've done with our new products before we get to final pricing.

I would point you to, we did price the XtendFlex cotton in the South at \$6, but we also extended a rebate to farmers because they won't have the opportunity to use dicamba this year, but they will get the opportunity to use two herbicide modes of action with glufosinate. In South America, let me split South America into Argentina and Brazil. In Argentina, dicamba has had a registration in the past. We'll be moving very quickly there. They have similar challenges to what you see in North America, and dicamba with Xtend we'll have a nice fit, and I would expect that we will lag where we're at in the U.S. but we will be moving very quickly down there. In Brazil, we have more work to do with our partners there to get the original dicamba product approved in Brazil and then we'll move into the over-the-top with the Xtend. So Brazil will be lagging by a margin compared to Argentina and Argentina will be right behind the U.S.

Robert Andrew Koort

Goldman Sachs & Co.

Great. That was very helpful Thank you.

Brett D. Begemann

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President & Chief Operating Officer

As far as the regulatory, we're on path. We're on track with the regulatory.

Operator: Our next question is from the line of Chris Parkinson with Credit Suisse. Please go ahead with your question.

Christopher S. Parkinson

Credit Suisse Securities (USA) LLC (Broker)

Q

Perfect. Thank you. Despite some volume headwinds, I guess, in the U.S. since 2012, you've been gaining some solid corn share across South America and Europe, particularly in Eastern Europe. How much farther can this go? And do you feel it's getting more difficult to gain share in a lower soft commodity environment? And then also just kind of on the peripheral, how do you feel about South Africa and Southeast Asia as another pillar or an aggregate, is it too small to move the needle? Thank you.

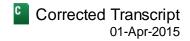
Hugh M. Grant

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Chairman & Chief Executive Officer

Yeah, Chris. Thanks for the two questions. I think we referenced, or I made comment to the model, our premise on how we deliver and share value with growers, and it's hard to say in a tough year [indiscernible] (44:51) I'm heartened see that even in these tough times that model is intact, and as the dust settles I think as we look around we'd probably say that we held or grew share in every one of our major markets worldwide. So it's never easy and every year is a new year and every year the grower decides fresh, but I'm heartened by the results and the fact that they continue to reach for innovation even in a \$4 corn environment. And then your other question was Southeast Asia and South Africa and Brett, I don't think these are – we don't consider them small markets, right?

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Brett D. Begemann

President & Chief Operating Officer

A

No, I think the — we have to be careful calling them small markets because there's a lot of corn in South Africa as well as in Asia, and here's how I think about it is a million acres of corn's a million acres of corn. It doesn't matter what country it's grown in. We've done extremely well in South Africa. We continue to do really well with those products. I have to tell you I'm getting more excited about Southeast Asia. We got the approval for our biotech products in Vietnam in corn most recently, we'll get to get those in the field with farmers. We're hearing really good conversations from some of the other countries in Southeast Asia. We've been in the Philippines for a number of years and gone very well there, so there's a real opportunity there to expand the biotech opportunity in Southeast Asia, and that could carry over to India, which is another large corn market. So it's a good opportunity across the corn, even in some of these smaller countries.

Christopher S. Parkinson

Credit Suisse Securities (USA) LLC (Broker)



Perfect. And just a quick follow-up, regarding Intacta, can you just comment a little more on what you're hearing from the existing growers and then potential new growers given the addition of 50-plus varieties year-on-year? So in other words, what part of that incremental 15 million acres, next year that 30 million acres versus the 15 million acres, will be contingent on new varieties versus older varieties? And is there any [ph] implied (46:56) impediment there based on the new varieties? And then also you mentioned the yield benefit, but what are you hearing from the customers regarding the costsavings angle going forward?

Brett D. Begemann

President & Chief Operating Officer



Well, as I said, I'm really excited about the Intacta performance. It's really knocked it out of the park when you have two years back to back of four-bushel yield advantage and you see the kind of insect performance we're getting out of the product. So specific to your question, I don't believe that we will be supply constrained in the core markets of Brazil where we've had products in the market for a couple of years. The new varieties really expand the footprint across Brazil to where now we will have varieties available in virtually every growing zone of Brazil. We were getting close last year, now we're there.

So we have the real opportunity, and doubling when you have a small acreage is one thing but doubling when you have 15 million acres and saying were going to 30 million acres, what we're hearing from growers that are already using Intacta is they're going to use a lot more. And what we're hearing from those that haven't used it a lot is they're hearing from their neighbors and what they've seen, and they're going to use it a lot more, so I expect a robust expansion of that business next year.

Hugh M. Grant

Chairman & Chief Executive Officer



This is the transition from the what if to the what is so it's the performance is concrete and demonstrable, and the coffee shops are helping in the sales conversation there.

Christopher S. Parkinson

Credit Suisse Securities (USA) LLC (Broker)



Perfect.

Hugh IVI. Grant
Chairman & Chief Executive Officer

A

Thank you.

Operator: Our next question comes from the line of P.J. Juvekar with Citi. Please proceed with your question.

P.J. Juvekar

Citigroup Global Markets, Inc. (Broker)

Yes. Hi. Good morning.

Hugh M. Grant

Chairman & Chief Executive Officer

A

Good morning.

P.J. Juvekar

Citigroup Global Markets, Inc. (Broker)

G

So I had a question about cadence of earnings. Now you're saying that third quarter EPS will be 80% to 85% of the second half, so fourth quarter is 15% to 20% of second half. That seems much larger than what you previously expected. I think in January you said fourth quarter would be breakeven to slightly positive. So I guess my question is, are we seeing earnings shift from 2Qinto 3Q and then from 3Q into 4Q?

Pierre C. Courduroux

Chief Financial Officer & Senior Vice President



P.J., thanks for the question. What we're assuming in the way we're thinking about the fourth quarter right now is we're assuming that the timing of the deliveries in the U.S. will allow for lower returns. So whatever moves from Q3 to Q4, depending on the returns, we are assuming there will be more in Q3 this year. Last year, as you remember, we had usually high returns in Q4 and we are not expecting that, but if – I mean, we could plan one way or the other, but at this point in time we are planning for lesser returns and potentially lesser sales in Q3 to adapt to those returns. So that's a big variable there in the equation.

The second variable is we're expecting a strong start in South America based on what we're seeing right now in safrinha. I mean, the dynamics in South America are turning towards corn a little more favorable and we're expecting a strong start of the season in South America, so that would be a nice upside versus last year where you remember this was the beginning of the decline. So right now we're expecting the level of rebound in South America in the quarter. Obviously, continued very strong performance of soy beans. I mean, as Brett was saying, we were talking about Intacta, we talked about the U.S. as well, so strong soy beans.

And the last point I want to make is, obviously, and we talked about that in our prepared remarks, is also Q4 is our largest opportunity for expense management and that's where we spend our discretionary dollars. Most of our discretionary dollars are spent in the fourth quarter, and the reduction in spend we're looking at right now, a big part of that will happen in Q4. So for all those reasons, that's why we have – and we've ranged it. Obviously, we've not given a precise guidance for the quarters, but that's the way we are thinking about the quarters and the timing and the cadence of the earnings to come.

P.J. Juvekar

Citigroup Global Markets, Inc. (Broker)



 $Thank you. \ On your first point you said you expect lower returns this year. \ Why is that? Thank you.$

Pierre C. Courduroux

Chief Financial Officer & Senior Vice President

Well, we expect lower returns because actually right now, I mean, the mood in the market has been fairly pessimistic, so we think that retail and the farmers have not over committed onto the volumes of corn. Remember, last year at this time people were way more bullish than they are right now, so that's why – and if returns are going to be higher, we should be showing more sales as well in the third quarter, so this is a correction variable in our planning based on acres. That's the way we've been thinking about it.

P.J. Juvekar

Citigroup Global Markets, Inc. (Broker)

Thank you.

Hugh M. Grant

Chairman & Chief Executive Officer

Thank you.

Operator: Our next question comes from the line of David Begleiter with Deutsche Bank. Please proceed with your question.

David I. Begleiter

Deutsche Bank Securities, Inc.

Thank you. Hugh, there's been some negative news on Roundup the last few weeks. Given that, how do you assess the overall risk to the portfolio and to earnings from Roundup given what's happened and going forward?

Hugh M. Grant

Chairman & Chief Executive Officer

Yeah, David, thank you. We are — so I don't see any impact on the business. We continue to support the platform. There's strong demand out there. And I think it's unfortunate that junk science and this kind of mischief creates so much confusion for consumers, but we continue to grow. Growers are looking for safe, effective solutions and I think Roundup and the combination of Roundup and the upcoming dicamba work that we're doing this is going to be a blockbuster product. It's going to be huge. So we continue to be committed. And you look at, the product is now close to 40 years old. It's been in almost constant regulatory review for that time, and it's had a spotless bill of health through that entire four decades, David. So unfortunate noise, but it's a distraction more than a reality.

David I. Begleiter

Deutsche Bank Securities, Inc.

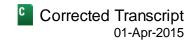
Why do you think it happened now, or came back to life at this time?

Hugh M. Grant

Chairman & Chief Executive Officer

I'm sorry. Say that again?

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David I. Begleiter

Deutsche Bank Securities, Inc.

Why do think the news came, or the WHO, the World Health Organization relooked at this issue now as opposed to prior periods?

Hugh M. Grant

Chairman & Chief Executive Officer

Yeah, I'm not going to speculate. Here's how I would look at it. Germany was the last major regulatory body that took a look at gly phosate. I will say this is like painting the Golden Gate Bridge. By the time you finish you start again. Germany took four years. They were the rapporteur country for the European Union. They took four years to study the safety of the product and gave it once again an impeccable opinion. The IR team took a week and during that week they reviewed a handful of products, and reached the conclusion. So I said at the time that there's a cherry-picking element on you pick and choose what you look for. The German reviews, the U.S. reviews, we're now starting in Canada and the U.S. again, when you use substantive science and you use state-of-the-art analytical techniques, I feel very, very confident about the strength of the product.

David I. Begleiter

Deutsche Bank Securities, Inc.

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Hugh M. Grant

Thank you.

Chairman & Chief Executive Officer

Thanks for the question.

Operator: Our next question is from the line of Mark Connelly with CLSA. Please go ahead with your question.

Mark W. Connelly

CLSA Americas LLC

Thanks. Hugh, so farmers didn't really trade down and U.S. corn acres weren't down all that much, either. So two big worries didn't come to pass. But there were some state to state changes, and as you think about those shifts, is that going to meaningfully affect your ability to penetrate markets like Doubles where you've historically been lighter? And related to that, as marginal acres do come out, is it safe to assume that your share in those markets tends to be lower anyway?

Hugh M. Grant

Chairman & Chief Executive Officer

Yeah, I'll – let me ask – I think – so it's a great question, and you do see the play out on the mosaic between that. I think that one of the general trends this year we've seen in some of these marginal acres is growers looking for a bit more value. We talked earlier about people holding on to some of those high-performing hybrids for one more year. So we've seen that, and it plays out in your observation on a little bit more in Doubles. But Brett, we've kind of been tailoring the portfolio to some of them.

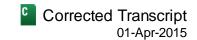
Brett D. Begemann

President & Chief Operating Officer

That's exactly right. If you think about the Double PRO product, that's the fit that it has in the marketplace. If you're a farmer in a rootworm area, you're focused on rootworm products, and SmartStax and that's why we see

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strength in SmartStax this year. And if you're on the fringe, you're the one taking a look at this saying hey, what's my opportunity. And as we said a few people did make a trade there but it was small. Specific to your question on the puts and takes across the states, we've planted very little corn so far and what hap pens between now and the middle of the summer is Mother Nature will have a whole lot to do with which states are up and down. And there's intentions right now, but the weather will have a big play into where we end up, and I'm still confident at this point in time those will all wash out and we'll be in a good position by the time we get to the end of the year. It won't change our outcomes.

Mark W. Connelly

CLSA Americas LLC

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Okay. Very helpful. Thankyou.

Hugh M. Grant

Chairman & Chief Executive Officer

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Thank you.

Operator: Our next question comes from the line of Michael Piken with Cleveland Research. Please proceed with your question.

Michael L. Piken

Cleveland Research Co. LLC

Q

Yeah, hi. Thanks for the question. Just wanted to check in in terms of where you guys are in terms of getting Chinese approval for Xtend and how important is that in terms of the commercial launch here in the U.S.?

Hugh M. Grant

Chairman & Chief Executive Officer

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Yeah, as we mentioned earlier, so we've all the files in, we've done all the submissions. The Chinese authorities, in our opinion, now have the dossiers that they need to make their decision. And it's important. So we need that Chinese approval. But if you look back over the years, China has been consistent. They're usually the last approval, but they've been consistent in their processes, so we've no reason – at this stage, we've no reason to doubt that history will repeat itself again.

Michael L. Piken

Cleveland Research Co. LLC

Okay. Terrific. And then just shifting down to South America, with respect to the usage of Intacta. I know obviously you guys are working to get Xtend approved down there. But would you be amenable to selling Intacta and have it be used with competitors' other herbicide-type product? Or is it going to be basically used exclusively with Xtend? Or has that decision been made yet? Thanks.

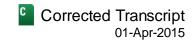
Hugh M. Grant

Chairman & Chief Executive Officer

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So it will ultimately be used with other products, but we, the main focus for us has be engetting the regulatory approvals, getting the field trials, getting the grower experiences. That's still – that's beyond the curve in the road at the moment. We just need to get the product in the hands of growers.

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Michael L. Piken

Cleveland Research Co. LLC

Q

Okay. Terrific. Thank you.

Hugh M. Grant

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Chairman & Chief Executive Officer

Thank you, Michael.

Operator: The next question is coming from line of Joel Jackson with BMO Capital Markets. Please go ahead with your question.

with your question.

Joel D. Jackson

BMO Capital Markets (Canada)

Hi. Thanks. Good morning. This first question is on and going back to Intacta, you talked about 30 million acres. Can we talk about, are there production constraints? What could the range be if the demand proved better than that? May be you could break down into how much of that would come to Argentina?

Hugh M. Grant

Chairman & Chief Executive Officer

A

Yeah, I guess we are beyond the production constraints stage now in terms of size of the markets and more importantly, the range of varieties. So that won't be the constraint going forward and I think it goes to my early point on velocity and growing that pie, so we'll be realistic in our pricing and try and drive penetration as quickly as we can. Brett, anything else on...

Brett D. Begemann

President & Chief Operating Officer

A

So the 30 million acres that we're talking about, it's early; we're still counting how much seed's coming in from harvest, and we won't know that because we work through the multipliers and seed producers, but we feel good about the 30 million acres. And I'd just point to that's for the whole South America market, and we're further along in Brazil than we are in Argentina, so as that mix comes to light, we'll share that as we go forwards.

Joel D. Jackson

BMO Capital Markets (Canada)

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Okay. And finally, if you look at the operational spend coming down a little bit more than you thought, can you talk about where we would see most of the cost coming down? And any programs that might be getting delayed?

Pierre C. Courduroux

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Chief Financial Officer & Senior Vice President

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So as I mentioned, I mean, the fourth quarter is where we have most of our discretionary spend, and it's going to be coming mostly – I mean, a large part – on top of what we've already done. A large part is going to be coming from that discretionary spend and it's going to be – I mean, the key driver in addition to that, I mean, since we point to the low end of our guidance and compared to last year we may see less er accruals regarding our incentives. And obviously, I mean, it's a downside for the full year, but we also have positive impact from the currency. So it's a downside for our all business, but when you look at operating spend, this is a tailwind I would say just for that very specific line of the P&L. So these are – discretionary spend is the bigger one, currency and then potentially some adjustments on our accruals.

Laura J. Meyer

Head-Investor Relations

And, Rob, I think we're close to time here. We're actually a little bit past time. So from a Q&A, I'd like to thank everybody for joining us today with their questions and pass it over to Hugh for some concluding comments.

Hugh M. Grant

Chairman & Chief Executive Officer

Thanks, Laura, and apologies to everybody on the line for running a little bit late. I hope you feel the second quarter gives you a clearer view into our 2015 opportunity. With the continued strength in our soybean business, and we're very pleased the performance. And despite the sizable currency and corn acreage headwinds, we still expect this year to deliver double-digit ongoing earnings per share growth and more than \$2 billion of free cash flow for this fiscal year. And I think more importantly, it reinforces the confidence that we have in our five-year plan to at least double our ongoing earnings per share, as we delivered on several key milestones, including a record second year ramp with Intacta and continued progress towards our capital allocation commitments.

So as I shared at the start of the call today, the fundamentals of our business are unchanged and these accomplishments are the cornerstones for our long-term growth drivers. Cyclicality in agriculture may cause our rate of gain to be uneven at times, but it doesn't change the trajectory for growth, particularly given the continued growth of long-term global demand for both corn and soybeans. So with that, I'd like to thank you for your interest in Monsanto and for joining us today.

Operator: This concludes today's teleconference. You may now disconnect your lines at this time, and we thank you for your participation.

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