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PRESENTATION

Operator

Welcome to the Fortis Q1 2016 conference call and webcast.

(Operator Instructions)

At this time I would like to turn the conference over to Miss Janet Craig, Vice President, Investor Relations of Fortis Inc. of Fortis Inc. Please go ahead Ms. Craig.

Janet Craig - *Fortis Inc. - VP of IR*

Thanks Jonathan and good morning everyone and welcome to Fortis's first quarter results conference call. I am joined by Barry Perry, President & CEO and Karl Smith, Executive VP and CFO as well as other members of the senior Management team.

Before we begin today's call, I want to remind you that the discussion will include forward-looking information which is subject to the forward-looking statement contained in the supporting slide show. All non-GAAP financial measures referenced in our prepared marks are reconciled to the related US GAAP financial measures in our Q1 MD&A. Also, unless otherwise specified all financial information referenced is in Canadian dollars.

With that, I will turn the call over to Barry.

Barry Perry - *Fortis Inc. - President & CEO*

Good morning everyone.

The first few months of this year have been very active at Fortis. As you are aware we announced the pending acquisition of ITC holdings corporation in early February. This \$11.3 billion transaction will continue to diversify our business in terms of regulatory jurisdictions, business risk profile and regional economic mix. ITC is the largest, independent, fully regulated electric transmission utility in the United States but more on ITC later.



We had a good start to 2016. Karl will go through the numbers with you shortly. Our model of having a low risk, highly diversified utility business continues to be our strength. Our strategy is simple. We want to leverage the footprint of our utility's operating expertise, reputation, and financial strength to develop opportunities. And that is exactly what we're doing.

This quarter we continued to execute against our strategy which includes targeting additional energy infrastructure and unlocking the value of LNG. We also make progress on our major capital projects as well as advanced initiatives that could increase our rate-base growth beyond our five year base plans.

Our five-year low risk capital plan totals CAD9 billion and we plan to invest CAD1.9 billion in 2016. Our capital program is largely focused on transmission and distribution across our utilities and is reflective of our ongoing capital needs in each business to continue to provide safe reliable and cost-effective energy service to our customers.

The base capital plan is a balance of sustaining and growth capital which will produce annual rate base growth through 2020 of about 4.5%. We expect our 2016 midyear rate base to be CAD17.5 billion.

Turning to some of the projects that we are working on that reflect and support our strategy. The Gas Main Replacement Program at Central Hudson is a program to eliminate and replace leakish prone pipes throughout the gas distribution system. Year to date central Hudson is ahead of plan on a number of miles replaced. We expect to invest about CAD155 million through 2020 on this program.

LNG remains a focus for Fortis and Tilbury LNG project is our largest, ongoing capital project. The LNG facility expansion, what is called Tilbury 1A, will be included in our regulated rate base. CAD105 million is expected to be invested this year, the project remains on track, and has an in-service date before the end of 2016.

As I touched on earlier an important factor in our continued growth is our utility operations identifying incremental investments in their franchise regions. I'm going to speak to a couple. If these proceed, they will increase our rate base growth beyond 4.5%.

The Woodfibre LNG plant obtained an export license from the National Energy Board and various environmental assessment approvals which are significant milestones. FortisBC's pipeline expansion to supply gas to the Woodfibre facility is conditional on Woodfibre LNG proceeding with its LNG export facility and the pipeline is subject to environmental approvals.

And investment decision by Woodfibre LNG is targeted by the end of 2016. The Wataynikaneyap project at FortisOntario is progressing nicely. This project aims to expand grid connections to 16 first nation communities in Northwestern Ontario. Since the issuance of the transmission license by the OEB in November of last year, a number of development initiatives have progressed.

The project is not only economically sound but also benefits the environment by reducing the amount of diesel burn in these remote communities. The project is a great example of how Fortis is able to capitalize on its first Nations and regulatory relationships while creating business opportunities for Fortis. These projects are just a couple of the initiatives we have within a Fortis's businesses that can expand our rate base growth beyond our base capital plan.

Switching gears, I want to move on to discuss ITC. Last week ITC reported a strong first quarter. During the quarter ITC invested over \$175 million in reliability system capacity and customer interconnection projects including one notable project in Detroit, which will support the load requirement of the new Red Wings stadium.

Since its inception in 2003, ITC has invested approximately \$6 billion in transmission assets. Looking ahead to 2016 through 2018, ITC's projected capital investment plan remains robust with more than \$2 billion in regulated projects in its current footprint.

Slide 10 lays out the strategic rationale for the ITC acquisition. I won't go over the slide again but ITC's Q1 performance is strong evidence of this rationale.

Two weeks ago we announced the completion of the process to secure a minority investor for ITC. This was an important milestone for the transaction and it was completed in just over 70 days. This exceeded our commitment to secure a partner within 90 days.

Our partner is an affiliate of GIC, a leading global investment firm, with well over \$100 billion in assets under Management. GIC was established in 1981 to secure the financial future of Singapore and the firm manages Singapore's foreign reserves. They have a significant presence in infrastructure investing globally, including an investment in Heathrow Airport. In the United States they have investments in Encore, a Texas-based transmission and distribution utility, Deccan Light, and Harvest Pipeline, among others.

We achieved a valuation in line with our expectations, a 19.9% stake for \$1.228 billion. Financing for the cash portion of the acquisition purchase price is expected to be achieved primarily through this minority investment sale, as well as through the issuance of approximately \$2 billion of Fortis debt.

From a regulatory perspective, GIC has experience with both FERC and CFIUS approvals which are key approvals in the process that closes acquisitions. And now that we have secured a minority investor, we can move to file our applications for regulatory approval. We are focused on meeting or exceeding the milestones we have set for ourselves and we have received excellent support from the team at ITC.

We hold our annual and special meeting Thursday and expect to receive shareholder approval for this transaction as well. We also expect ITC to proceed to their shareholder vote as soon as they can, pending some regulatory filings that must be completed. On the regulatory front we fought our application with FERC last week. We expect to file with the state regulators shortly. We also submitted our application for listing on the NYSE and expect to have that approval within weeks. We expect to list on the exchange in the Fall. We remain on track to close this transaction by the end of the year.

To wrap up, we are well positioned for sustaining growth, our business is an excellent shape, it is low risk and diversified. Excluding ITC our five-year, CAD9 billion capital expenditure plan, positions us to have rate base of over CAD20 billion by 2020. We have the financial strength and flexibility to maintain predictable dividend growth and to take advantage of opportunities in the market for additional infrastructure investment.

That concludes my prepared remarks I will now turn things back over to Karl.

Karl Smith - Fortis Inc. - EVP & CFO

Thank you, Barry. Good morning everyone.

As Barry mentioned, our quarter one 2016 financial results are on track and in line with our expectations. Our adjusted earnings per share of CAD0.67 was higher by CAD0.02 or 3% compared to last year. Cash flow from operations for the quarter was approximately CAD483 million, higher by 7% compared to last year.

Let me take you through our earnings per share in a bit more detail. As you can see from the waterfall chart earnings per share for the quarter reflects higher contribution from the Waneta Expansion and the Generation Segment. Favorable foreign exchange, a higher [AFUDC] at FortisBC energy, related to construction on the Tilbury LNG expansion and better performance from our Caribbean utilities.

Earnings-per-share growth was tempered by lower earnings contribution as a result of the impact of regulatory deferral mechanisms and timing of purchase power cost at FortisBC. Higher corporate expenses as well as an increase in the weighted average number of common shares outstanding. There are two adjustments that we made to our GAAP earnings this quarter that I want to point out.

The first was CAD17 million in acquisition related expenses. The second was CAD11 million related to FERC order transmission refunds at TEP relating to prior periods. Our strong financial metrics, driven by increasing earnings and cash flow, and a strong balance sheet, support our financial capacity and solid investment-grade credit ratings.



We have a light, near-term debt maturity profile, with almost 90% of our long-term debt, other than credit facility [borrowings], having maturities beyond five years. Along with significant unused credit facilities we're position to fund both new investment opportunities and organic growth.

Turning to regulatory matters we continue to focus on completing ongoing regulatory proceedings and maintaining a constructive regulatory relationships and outcomes across our utilities. As you can see from the list of significant filings and applications, our regulatory calendar remains very active. The most significant ongoing regulatory proceeding is Tucson Electric Power's general rate application which requests new retail rates effective January 1, 2017, using the year ended June 30, 2015 as a historical test year.

Since its last rate order in 2013, which was based on a 2011 historical test year, TEP's rate base has increased by US \$600 million and it's common equity thickness has increased to 650 basis points. We are seeking a return on equity of 10.35% on a 50% equity thickness with an original cost rate base of \$2.1 billion.

Decisions regarding Newfoundland Power's general rate application, which seeks new rates effective July 1, 2016 and FortisBC energy's generic cost of capital application for the 2016 benchmark ROE and common equity thickness are expected in mid-2016. And finally, generated costs of capital proceedings are ongoing in Alberta to set the allowed ROE and common equity thickness for 2016 and 2017. A decision is expected before the end of 2016.

That concludes my remarks and I will now turn the call back over to Janet.

Janet Craig - Fortis Inc. - VP of IR

Thanks, Karl. Jonathan, if you could please open the lines up for Q& A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Linda Ezergailis, TD Securities.

Linda Ezergailis - TD Securities - Analyst

Thank you. I just have a question about the FERC transmission refund decision? I'm wondering if you are considering appealing that and when that process might get ultimately resolved? And then as a two-pronged question, can you comment on the possibility of civil penalties and how that might unfold as well?

Barry Perry - Fortis Inc. - President & CEO

Linda, we are considering appealing. We are going through that review at this point in time. There is the office of enforcement does have the ability to impose civil penalties. Clearly we are hopeful that that does not occur and if it does, we do expect it not to be a significant amount.

I just want to point out that this was really for more of an administrative error of failure to file nonconforming contracts that frankly were deemed to have been conforming contracts at the time. So, this is the nature of this and focused on that periods in 2003, 2004.



Linda Ezergailis - *TD Securities - Analyst*

Okay. Thanks for that context and just in terms of your US operations. Have you put any updated thoughts to hedging your foreign exchange exposure? Or are you still going to let it float?

Barry Perry - *Fortis Inc. - President & CEO*

It's a topic that we are continuing to look at, Linda. I would say that we are not planning on entering into any arrangements until after the shareholder vote of ITC. That would be the first big milestone before we make a call on that. We have a little bit of time to wait to execute there.

Linda Ezergailis - *TD Securities - Analyst*

Just one cleanup question. Your CapEx for FortisAlberta has come down a snick. Could you see that continuing potentially if the economy remains weak? And then on the flip side could you see some acceleration maybe as a result of the economic weakness of a consolidation of your rural electric associations in your franchise?

Barry Perry - *Fortis Inc. - President & CEO*

On the latter we just continue to work that. It really depends on a number of factors -- the financial situation of these entities in the towns that they are involved with. On the first, we are seeing a little weakness. Not substantial this point.

We forecasted that out over the period. So, I think we have made our best cut at what we think is going to happen there. But it's something we will continue to update our shareholders on, on a go forward basis, Linda.

Operator

Paul Lechem, CIBC.

Paul Lechem - *CIBC World Markets - Analyst*

Looking at the UNS energy acquisition, understanding you're going back in for a refresh of the rate case there. Just wondering how is the business performing versus the rate-base growth expectations you had at the time of the acquisition and your outlook at this point? Do you see the business actually -- this replacement cycle from coal to gas and renewables, is it unfolding at the pace you expected? Or can you just give us some sense of how that business is performing on the metric?

Barry Perry - *Fortis Inc. - President & CEO*

I would say, Paul, it is performing as expected. We are seeing opportunities in Arizona. We ended up buying the Gila River 3 plant -- that 550 megawatt plant. We have done some transmission work that was not in the original plans.

The problem we have obviously, is the historical test year and the fact that rates have not been reset since 2011 in Arizona and now we are in front of the regulator to have that occur. It's a fair amount of regulatory lag that we are dealing with at this point. When you think about that CAD600 million of rate base that we are carrying that has -- we're not really earning anything on at this point in time.

So, 2016 is a difficult year being the last year prior to having your rates reset. But we knew that was coming and it's in our planning and all of that. The underlying business operationally continues to do well. We remain very optimistic that we will see nice growth there over our planning period. And maybe do some more generation later out as we start to execute further on our diversification away from coal. So we're optimistic.

Paul Lechem - *CIBC World Markets - Analyst*

Has the fact that the Clean Power Plan has been stayed, is that impacting the pace of the replacement cycle in UNS or is that really having no impact?

Barry Perry - *Fortis Inc. - President & CEO*

I would say it's having somewhat minimal impact right now. It remains to be seen how this evolves here in the United States. Clearly I think directionally the move to cleaner sources of power, we don't think is going to stop. So whether it slows a little bit here, we will see. But directionally from a strategic perspective, our focus clearly is on gas-fired generation, on solar. Those kind of investments in Arizona

Paul Lechem - *CIBC World Markets - Analyst*

And just one more if I may. The discussions with Hawaii Electric in terms of the LNG export, can you just give us an update of where that is at this point in time?

Barry Perry - *Fortis Inc. - President & CEO*

We are still in negotiations with Hawaii Electric. We have made a lot of progress I would say. I would also add though that our transaction there with HECO is, in my view, somewhat linked to the deal between NextEra and HECO. The size of this project that HECO's undertook, requires significant financial resources and I think a good thing to watch for is whether the NextEra/HECO deal is successful there. But we have continued to work through the agreement to supply LNG to Hawaii. We are really down to just a few remaining points at this point on that agreement.

Paul Lechem - *CIBC World Markets - Analyst*

Okay. Thanks very much, Barry.

Operator

Robert Kwan, RBC Capital Markets

Robert Kwan - *RBC Capital Markets - Analyst*

If I could just start with the ITC deal. You've got strengthening of the CAD and then the GIC investment amount and then the bonus depreciation down at ITC. I'm just wondering, do you have an update to the impact on the 5% EPS accretion guidance?

Barry Perry - *Fortis Inc. - President & CEO*

Robert, our update is that we are still saying the deal is accretive in the first full year even after taking some of these negative changes in our assumptions. Who would have thought the Canadian dollar would have went from \$0.70 to \$0.80 in such a short period of time. But we're still accretive and we're not providing any update to that 5% number at this point in time but I am really happy to be able to say that we are still looking at an accretive deal at this point in time.

Robert Kwan - *RBC Capital Markets - Analyst*

For sure. And then just on bonus depreciation we heard ITC's thoughts last week and it don't know if that's your view in terms of their conversation being isolated strictly to ITC. I'm just wondering if you have expanded thoughts as you think about the consolidated look with Fortis as a whole? And specifically the extra cash that the election could spinoff as well.

Barry Perry - *Fortis Inc. - President & CEO*

I think of the cash as an important thing that tends to get missed in this. The bonus depreciation does provide incremental cash. It helps the credit metrics of ITC and provides capital to invest further in the grid. The focus really is making sure ITC is investing the appropriate amounts of capital to maintain the grid there and I'm optimistic that the bonus depreciation issue at ITC will not be, in any way, a material factor in our investment there and that's my view on it. Joe and his team have done a great job of growing that business and I really fully expect that to continue.

Robert Kwan - *RBC Capital Markets - Analyst*

Could it just ask one follow-up or cleanup on the Arizona transmission refunds. Is there any ongoing impact from the agreements that were already in place based on what FERC had ruled?

Barry Perry - *Fortis Inc. - President & CEO*

No. Nothing. The last few years nothing really. CAD10,000, CAD12,000 a year or something like that, it's pretty minimal.

Operator

Ben Pham, BMO Capital.

Ben Pham - *BMO Capital Markets - Analyst*

I wanted to go back to the last question on the ITC accretion. It seems like a lot of the deltas that have come up that currency and perhaps bonus depreciation as has been more a negative delta to you guys early [SITAR] expectations. Could you talk about maybe some of the areas where there is some built-in upside potential to what you were budgeting from your side that could mitigate some of the negatives trends we have been seeing?

Barry Perry - *Fortis Inc. - President & CEO*

First, Ben, I will say to you that the fact that we have still an accretive deal should tell you how good this deal was when we announced it. This was a very strong transaction for Fortis. You've got to choose what exchange rate you want to use going forward.

Is the CAD0.80 a real place at this point in time? We have obviously updated our assumptions based on a certain view of FX and that creates still an accretive transaction. I'm not going to tell you exactly where that number is but it still accretive.

The couple of areas that we will be able to add value, I think, is on the capital forecasting. There is always been a declining CapEx forecast at ITC. Like a lot of US utilities and Canadian utilities for that matter, over the five-year period, capital tends to trail off. It rarely never happens. If you focused on a flat level of CapEx of CAD700 million or so, it adds a couple percentage points to the accretion on this transaction. The debt financing is another area. We have made conservative assumptions on financing the \$2 billion of Fortis debt. I think there's some upside there.

And frankly, the final piece is on ROE. Depending on what you're assumptions are on the outcomes of these ROE proceedings in my view we have taken a conservative view there and we may have some ability to improve performance there. Overall I am feeling still very comfortable that this is a good transaction accretive and from a business risk profile very, very -- overall good for Fortis.

Ben Pham - *BMO Capital Markets - Analyst*

Okay. Thanks for that. And maybe on the financing side could you provide us an update on that perhaps just with the minority interest you got in and looking at your capital spend profile the next couple of years, do you need to rejig your DRIP rates or sell assets? How do you see that shaking out?

Barry Perry - *Fortis Inc. - President & CEO*

I would say no to those, Ben. We have broken the back on the financing for ITC between the share exchange, the minority investor and CAD2 billion of debt. That is the lion's share of the financing.

What remains is de minimis for Fortis. And when you think about our market cap for the Company and the enterprise value of the business. So, it will be just baked into our normal overall financing plans over our planning period.

Ben Pham - *BMO Capital Markets - Analyst*

Okay well thanks for taking my questions. Thanks everybody.

Operator

Patrick Kenny, National Bank Financial.

Patrick Kenny - *National Bank Financial - Analyst*

Wondering if you can comment on the Treasury Department's announcement about a month ago to address earnings stripping and maybe walk us through any potential impact on your current US based cash taxes. If your intercompany loans were treated as say 50% equity and also what impact this might have on your cash flow accretion outlook from ITC? Thanks

Karl Smith - *Fortis Inc. - EVP & CFO*

Patrick it's Karl. Our assessment is that there is minimal impact on us. First, of all it's clearly not an inversion transaction that we're looking at here. It's not a tax driven transaction. It's a real investment, a real asset is in the United States.

Also with respect to our tax planning mechanisms that are the same ones we have been using for a number of years now. They are very mainstream. We don't think that the announcement last week is directed in any way towards the type of transaction we are doing or probably speaking the way that we structured our tax affairs around our investments in the US.

Patrick Kenny - *National Bank Financial - Analyst*

Okay so just to be clear, if the intercompany loans that you have outstanding or plan to use for ITC were treated as say 50% equity, your cash tax horizons wouldn't change over the next five years?



Karl Smith - Fortis Inc. - EVP & CFO

Yes. That's a hypothetical. Our assessment is that we are not at risk of that. But you are right. If that were the case then again the impact is not significant to us.

Patrick Kenny - National Bank Financial - Analyst

Okay. Thanks. And then just with respect to Alberta now that the Supreme Court has dismissed the [leave] to appeal the stranded asset decision. I guess first, Barry, what can you guys do to mitigate exposure for shareholders longer-term? And then second, does this change your view on Alberta as a core region for allocating capital? Or maybe is this a game changer for you guys and would you consider exiting the province?

Barry Perry - Fortis Inc. - President & CEO

Absolutely not. We are wedded to Alberta. I will tell you that. It's a great place to do business and we are going to continue to be a part of the economy there.

What's really good about our assets in Alberta though, is the risk of stranded assets is -- for us it's fairly de minimis. We don't own power plants, for example. We own the distribution wires and if you think about it if it's a certain line that was considered stranded, it would have to have been not to be material to the Company in any way whatsoever. So, it clearly is a issue of concern and it does increase the risk of doing business but it doesn't rise to the level where Fortis would say we are leaving Alberta. I would continue to put capital to work in Alberta going forward.

Patrick Kenny - National Bank Financial - Analyst

Okay. Great. Thanks for that. What about for the GCOC proceedings this year. Do you think that this decision will have any impact on the 8.3% ROE going forward?

Barry Perry - Fortis Inc. - President & CEO

It's always hard to predict what the outcome of these processes are. Clearly 8.3% is the lowest in the country at this point and I would hope it doesn't go lower. That being said, we do operate on a PBR mechanism in Alberta and our actual results are higher than the allowed results. So, we have been working well under that regime. So, I think when you look at Alberta you do have to look at the actual performance of the utility businesses in the jurisdiction.

Patrick Kenny - National Bank Financial - Analyst

Okay. Great. Thanks guys that's all I had.

Operator

(Operator Instructions)

Andrew Kuske, Credit Suisse.



Andrew Kuske - *Credit Suisse - Analyst*

I guess the question is for Barry and you obviously have some pretty impressive experience in developing large-scale hydro. When you look of the situation that now, Nalcor, now involved in at Muskrat. Did you see any opportunity to effectively get involved in that situation and help them out to a certain degree?

Barry Perry - *Fortis Inc. - President & CEO*

It goes to show the amazing talent we have a Fortis, they are even bringing back our retirees to help at this point in time. Listen, we are based in St. John's, Newfoundland and I have always been very open to putting more capital work in the province. I'd like to do that, frankly. I'm not saying it's Muskrat Falls or anything, but we would like to have a bigger role in this province and we're working hard to make that happen.

Andrew Kuske - *Credit Suisse - Analyst*

So, just continuing on that point when you say a bigger role, you're open to looking at other things that Nalcor or the government may want from an energy infrastructure standpoint in Newfoundland?

Barry Perry - *Fortis Inc. - President & CEO*

Absolutely. We are doing this all across North America and we should be able to do it in our home province.

Andrew Kuske - *Credit Suisse - Analyst*

Okay, that's helpful. And then maybe just a bit of a broader question. When you think about your capital allocation out in the future you've got a mix of effectively embedded CapEx with your existing utility base. That's a combination of effectively enhancements upgrades and then brand-new stuff with an existing rate base. Your balancing that out with some acquisitions. How do you think about the longer-term proportionality of those buckets?

Barry Perry - *Fortis Inc. - President & CEO*

Preferably longer-term. It's all organic growth. No further acquisitions. But clearly Fortis, we are good at acquiring good utilities and bringing them to become a part of our group. For me, my focus right now is on ITC and I really believe it's a few years. But we'll just have to see how it goes.

What I know is that our portfolio of utilities we own is unmatched in North America at this point. When I look at the risk profile of this wires and pipes business that we are creating here, when we get this deal closed and the market really understands how this fits in with Fortis and what we've become. I think it's going to be unique in the industry. We have a good ability of being able to be on the top of the list for businesses that are interested in looking at strategic alternatives. But I will tell you our focus is to grow the portfolio we've got now rather than run off and do another transaction.

Andrew Kuske - *Credit Suisse - Analyst*

And then just if I may on that ITC transaction, when that closes, do you believe that that maybe makes life a little more difficult in the states were ITC has exposure? Knowing that they are FERC regulated assets for the most part? Does that make it more difficult for utility transactions within the states were ITC is already present?

Barry Perry - Fortis Inc. - President & CEO

I would say yes. We are very focused on maintaining ITC's independence but it doesn't bother me. I am happy to have ITC. If I was to pick the jewel then I got the jewel.

There are other jurisdictions down the road that transactions could work in. I am not concerned about the fact that someone might perceive that I've just limited the next opportunities for Fortis. We really got the utility we were looking to get and we still see longer term other opportunities around North America that we could continue to grow our business if we desired to buy other utilities.

Andrew Kuske - Credit Suisse - Analyst

Okay. That's great. Thank you

Operator

As there are no further questions, I would like to turn the call back to Mr. Perry for any closing remarks

Barry Perry - Fortis Inc. - President & CEO

Just to say thank you for participating today and we are looking forward to our AGM later this week. We will be reporting on that -- post that in terms of the votes on the ITC transaction. Thank you very much.

Operator

And thank you for participating, ladies and gentlemen. This concludes today's conference. You may now disconnect.

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