

Addus HomeCare's CEO Discusses Q1 2014 Earnings Results - Earnings Call Transcript

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Executives

[Larry Wyrobek] – Corporate Controller

Mark S. Heaney – Chairman of the Board, President, CEO; President & CEO Addus HealthCare, Inc.

Darby Anderson – Vice President Home & Community Services of Addus Healthcare

Dennis Meulemans – Chief Financial Officer, Vice President & Secretary

Analyst

Brian Hoffman – Avondale Partners

Matthew Gilmore – Robert W. Baird & Co.

[Unidentified Analyst] – Oppenheimer

[Unidentified Analyst] – Sidoti & Company

[Unidentified Analysts] – Stephens, Inc.

Addus HomeCare Corporation ([ADUS](#)) Q1 2014 Results Earnings Conference Call May 1, 2014 5:00 PM ET

Operator

At this time I would like to welcome everyone to the Addus quarter one 2014 earnings conference call. (Operator Instructions) As a reminder, this conference is being recorded for replay purposes. I would now like to turn the conference over to Mr. [Larry Wyrobek], Corporate Controller.

LL

This is [Larry Wyrobek] corporate controller and thanks to all of you for joining Addus HomeCare Q1 2014 earnings conference call. Before we begin I will briefly read the Safe Harbor

Statement. This presentation will contain forward-looking statements within the meaning of the federal securities laws. Statements regarding future events and developments, the company's future performance, as well as management's expectations, beliefs, intentions, plans, estimates, or projections relating to the future are forward-looking statements within the meanings of these laws.

These forward-looking statements are subject to a number of risks and uncertainties including factors outlined from time-to-time in our most recent Form 10K or Form 10Q, our earnings announcement and other reports we file with the Securities & Exchange Commission. These are available at www.SEC.gov. The company undertakes no obligation to update publically any forward-looking statement whether as a result of new information, future events, or otherwise.

With that complete, I would like to now turn the call over to Mark Heaney, the company's Chief Executive Officer.

Mark S. Heaney - Chairman of the Board, President, CEO; President & CEO **Addus** HealthCare, Inc.

Thank you all for attending the first quarter 2014 investor call for **Addus** HomeCare. In addition to Larry, I am joined in our support center by Darby Anderson, our Senior Vice President and Dennis Meulemans, our Chief Financial Officer. I'd like to provide a special welcome to our management staff around the country who are always encouraged to listen in on this presentation so, welcome to you.

Measured on a number of different levels, I think we had a good quarter. Revenues were \$71.7 million representing a 13.8% increase from the prior year. Pre-tax operating income from continuing operations was up at \$3.6 million even while we make investments in sales, technology, and SOXs compliance. Income was \$0.21 per share.

We are especially grateful to our teams across the country who did their very best every day to deliver essentially services to our **Addus** population during the midst of a protracted and especially harsh winter so, just thank you all so much. We continue to focus on the following objectives: becoming a sales organization; to positioning from managed care; to do that to redesign then our care delivery system; and doing this looking for important and strategic acquisitions.

On these objectives, our census trend continues steady up even with the harsh winter. Same store sales are up 5.6% year-over-year and census is up 8% year-over-year. [Inaudible], this population, our payers are shifting to managed care. We believe that managed care will require much more from its providers in the form of data, technology, and health outcomes. We continue to invest in technology and infrastructure making it possible for us to connect what our aide is seeing and doing in the home with the managed care case manager so that we can help. That is, so that we can be on the front of the need to drive health outcomes from the home where disease and healthcare spending starts.

We believe these investments position us to win in the new managed outcome environment. I'm very pleased with our progress in identifying and then closing and transitioning our recent acquisitions. I'm pleased with our prospecting team as they identify additional good strategic opportunities and our cash and our liquidity are good, positioning us to pursue strategic accretive acquisitions. I think we had a good quarter hitting on each of our strategic objectives. With that, let me turn the call over to Darby so he can provide some additional detail on our performance in the quarter.

[Darby Anderson](#) - Vice President Home & Community Services of **Addus** Healthcare

I want to open my comments by welcoming our **Addus** HomeCare professionals listening around the country and acknowledge the excellent work you do helping people remain at home safely and supported where they want to be. Despite the weather challenges we faced we had a good quarter. We continued to put up solid census growth numbers, move forward on our new care system and strengthen relationships with managed care organizations as implementation of dual and managed Medicaid programs began or grow nearer.

Organic census growth was up 350 consumers or 1.3% over Q4 2013 and up 2,055 consumers or 8% from Q1 2013. Including acquisitions, census growth was 1,522 clients or 5.4% from Q4 2013 and 3,680 or 14.3% year-over-year. I'm increasingly pleased with our sales efforts and results. Although far from declaring victory, I'm seeing increasing evidence of an emerging sales culture. As an example, in Q1 we designed a team oriented sales contest involving all of our locations as well as our support center and even executive leadership. It's generating a spirit of healthy competition among our designated teams. It's a creative contest and I think one that everyone is having fun with.

We completed the MSA MediHome Private Care acquisition with Ohio and Tennessee operations coming on board in January. These operations are performing as planned. We continue to work integrating the CHAC acquisition in New Mexico and that business too was on plan through the quarter. In New Mexico and elsewhere, the pace of progress with managed care initiatives is quickening. Plans in California began voluntary enrollment in some of the pilot counties. Illinois continues expansion of its integrated care program, a Medicaid only managed care effort and then based on state projections and timelines for the Illinois duals demonstration pilot, a substantial portion of our current Illinois consumer base will transition to managed care with an effective date of September 2014.

While we continue to sign contracts and meet with managed care payers across the country, our sales program is beginning to shift from securing contracts to case load acquisition in these states. We continue to make advances in our care system redesign. In the quarter, we established additional metrics to drive key actions intended to improve both effectiveness and efficiency of that system. We made progress rolling out new functionality in our software applications and we also increased the frequency with which our supervisors are seeing consumers in the home. Seeing our at risk consumers more frequently is crucial to identifying and acting on changes and condition.

On the legislative front we continue to monitor status of proposals to increase the minimum wage both federally and in all of our states. We are also monitoring progress towards the implementation of the Department of Labor rules change regarding the companionship exemption and just to reiterate my comments made in prior calls regarding the Department of Labor rule change, **Addus** does not rely on the companionship exemption. We pay both overtime and travel time to our homecare aides and are diligent in always be in compliance with the rules including the changes to be effective January 1, 2015.

Although again, a challenging start to the year, I'm very proud of our team for being up to the challenge. Thank you to the entire team for their collective and collaborative efforts producing solid financial and operational results this quarter. Dennis will now take us through the numbers in more detail.

Dennis Meulemans - Chief Financial Officer, Vice President & Secretary

As Mark and Darby have said, we had a good quarter. Net service revenues from continuing operations for the quarter decreased by 13.8% to \$71.7 million compared to \$63 million in the same period in '13. Net income from continuing operations was \$2.4 million or \$0.21 per diluted share, essentially equal to last year's results after considering a onetime \$520,000 tax benefit realized in 2013. Net income from same store was \$2 million and acquisitions added an additional \$400,000.

Same store revenues increased 5.6% to \$66.5 million. These revenues were driven by an 8% increase in census offset by a slight revenue loss attributable to the weather. Acquisitions added an additional [\$5.2] million or 8.2% of our revenues as they essentially operating under **Addus** management for the entire quarter. Gross profit margin percentage improved 900 basis points to 26% when compared to the prior year. This improvement was largely attributable to a 500 basis point improvement in our same store operations with acquisitions contributing 400 basis points to the overall average.

The gross margin percentage for our acquisitions is higher than our same store business. The revenue per billable hour of \$16.92 declined slightly from the fourth quarter average of \$17.03 as the acquired business has lower average billing rates than our same stores which is partially offset by higher average hours per client. Gross margin is higher in our acquired business and our overall labor costs are lower in this business as well. General and administrative expenses increased by \$2.9 million over the prior year quarter. This increase includes \$1.7 million attributable to G&A expenses related to the acquisition with the remainder attributable to increased costs for our investments in technology, our new care model and to our SOX 404 compliance program which was not required in 2013.

Adjustments to EBITDA has been refined to include onetime acquisition costs and increased 1.4% to \$4.5 million when compared to 2013 resales. Now, let's turn to our balance sheet and cash flow. Cash flows from operations were \$2.7 million. We utilized approximately \$1.5 million for the build out of our new support center. Cash increased \$1.4 million in the quarter after considering \$200,000 in cash provided by executive's exercise of vested stock options.

Our accounts receivables net of reserves were \$59 million as of March 31, 2014 representing a \$2.4 million increase from the balance reported on December 31, 2014. Our payments from the state of Illinois were strong in the quarter. At March 31st we had \$17 million in cash, no longer term debt, and approximately \$43 million available under our credit facility to be used for future acquisitions and other corporate purposes.

This completes my comments. I'd like to turn the discussion back to Mark for closing remarks [inaudible] questions.

[Mark S. Heaney](#) - Chairman of the Board, President, CEO; President & CEO [Addus HealthCare, Inc.](#)

My closing comments is much for our team who is listening in on this call and it might be for our investors and analysis. We have to talk about the numbers, the trend, the investments, and every other measure necessary to evaluate our business. It is on these measures that we evaluate the opportunity and our execution towards it. But the one measure that has the greatest long term impact on the ability of this company to grow and to thrive, and this is even more certain as managed care assumes responsibility for this population, is the decree and consistency with which we keep our promise to deliver care to a population who without someone to come to their home where they are often alone to get them a meal, or to help them with their medications, and to help them with their personal care, and often times their most basic personal hygiene, to make sure that their heat is on, and that they are in every way safe.

If we don't do that, people suffer, and their families suffer, and the community will suffer. If we don't keep our promise, these at risk persons end up in a hospital or a nursing home where in fact, and this is actually true, it's actually easier to deliver these essential services in an institution. Now, they don't want to be there, and we don't want to be there, and I don't want to be there, and no one wants to go there, and if you go there it costs four times as much to be there. But if it is true that in these places there is a relative certainty that you're going to be warm and you're going to get a meal.

We have to keep our promises. We have to deliver this care when we say we are going to deliver it or the preferred and lower cost homecare option doesn't work, harsh winters or not. We are responsible here for the services to 29,000 people and I just want to say that I think that our staff did a great job on this measure in the last quarter and for this we're all just very, very grateful.

Operator, let me turn the call back to you and you can open it up to questions.

Question-And-Answer Session

Operator

(Operator Instructions) Your first question comes from Brian Hoffman – Avondale Partners.

[Brian Hoffman](#) - Avondale Partners

My first question is on same store census gross of 350 consumers, and I guess first of all does that include any contribution from South Carolina or was South Carolina all accounted for in the fourth quarter? Secondly, was that number at all negatively impacted by the weather?

Dennis Meulemans - Chief Financial Officer, Vice President & Secretary

In South Carolina, that census would have been captured in the fourth quarter. We essentially accreted the MSA operations into one of our existing operations. To the later point, caseload acquisition, I don't believe was substantially impacted by the weather. The seasonality, if any, to our caseload acquisition comes through the slowdown in the holidays of case management assessment but I don't believe it was affected by the weather at all.

Brian Hoffman - Avondale Partners

Then on the gross margin, for the same store business it was, it looks like, 50 basis points higher than in the first quarter of last year and that's a little better than what I was expecting given the full quarter negative comp from the Illinois rounding rule, so I just wondered is there anything you can call out there that allowed it to benefit or improve?

Mark S. Heaney - Chairman of the Board, President, CEO; President & CEO Addus HealthCare, Inc.

Brian, I can't call out anything specifically. We just did a good job at managing our costs and it showed up in the numbers.

Brian Hoffman - Avondale Partners

Can you break out the SOX compliance costs in the quarter?

Mark S. Heaney - Chairman of the Board, President, CEO; President & CEO Addus HealthCare, Inc.

That's a number we don't disclose specifically. We have previously stated that we estimated that to be \$500,000 to \$700,000 annually and those numbers are pretty accurate.

Brian Hoffman - Avondale Partners

Then last question for me, we've heard a lot about developing or turning the company into a sales organization, so how far along would you say you are in that process and from your perspective is there any one key area that you'll really be focusing on over the next several months?

Mark S. Heaney - Chairman of the Board, President, CEO; President & CEO Addus HealthCare, Inc.

It's hard to put a number on something that will continually and always evolve. But, I think to your latter question, I'm looking for more distributed growth. Our effort and our focus is around all of our sites being up in census and continuous steady up increases in the number of consumers they serve on a daily, weekly, monthly basis.

Operator

Your next question comes from Matthew Gilmore – Robert W. Baird & Co.

[Matthew Gilmore](#) - Robert W. Baird & Co.

Just a quick follow up to the weather question. Your census was up 8%, your rates were flat and your revenues were up kind of 5% which would imply sort of a small decline in the hours per census. Is that probably where you saw the weather impact if there was any?

[Darby Anderson](#) - Vice President Home & Community Services of **Addus** Healthcare

Yes, that would be exactly where we see it.

[Matthew Gilmore](#) - Robert W. Baird & Co.

Then, Darby I think you mentioned a substantial portion of the business would move to managed care in September. I was just curious a) how you guys are thinking about that transition and then is there any change to the payment model or rates as those clients move over?

[Darby Anderson](#) - Vice President Home & Community Services of **Addus** Healthcare

First, no changes to the rates. We go from, as state systems go a pretty good one in Illinois, to how we actually submit claims and get paid through one organization primarily the Illinois Department on Aging to up to seven managed health plans to bill and navigate their billing systems. We're getting a little bit of a preview of that in the innovative care program so I think we're going to be ahead of the curve come September but that obviously is going to present some short term challenges just to figure those systems out and make sure it has no meaningful impact on collections, etc.

In terms of just the transition itself, these are just to be clear, consumers that we are already serving that will enroll into the dual project. Again, our relationship building with the health plans, I won't say there won't be bumps in the road as things change, but I think we're very well positioned with a good dialog with those health plans to get through those bumps quickly and execute on our model and deliver health outcomes.

[Mark S. Heaney](#) - Chairman of the Board, President, CEO; President & CEO **Addus** HealthCare, Inc.

I'd just close with a comment, we get a lot of questions and I suspect we might get one here, but how is Illinois doing paying its bills? This is a place where to the degree that managed care is

picking up, becoming the payer for these Illinois consumers, frankly some could look at it as a positive. We bill managed care and they pay us.

[Matthew Gilmore](#) - Robert W. Baird & Co.

That kind of leads to the next question I guess, and I know we're early into this, but Illinois doesn't pay you on a very timely basis. I suspect some of the managed care payers pay you a little bit quicker. Is that true?

[Mark S. Heaney](#) - Chairman of the Board, President, CEO; President & CEO **Addus** HealthCare, Inc.

That's a true statement. Just to be fair, you can only beat up on one city so long. Dennis [inaudible] Illinois is an important payer to us, how have they been for the last several months?

[Dennis Meulemans](#) - Chief Financial Officer, Vice President & Secretary

Illinois, their payments increase with tax revenues, yearend tax revenue increases because the state definitely [inaudible] us. They've been steady and continue to be steady going into the second quarter. But, we do disclose our overall DSOs for Illinois and others and Illinois is higher than our other payers so I would expect that as the transition occurs we will get a little bit of cash out of that.

[Matthew Gilmore](#) - Robert W. Baird & Co.

Then I know we're in the middle of the legislative session for a lot of states, but is there anything to kind of call out as you sort of assess the temperature of each state in terms of rate or enrollment in any of those programs as you kind of look out over the next couple of months?

[Dennis Meulemans](#) - Chief Financial Officer, Vice President & Secretary

Nothing material at this time.

Operator

Your next question comes from [Unidentified Analyst] – Oppenheimer.

[\[Unidentified Analyst\]](#) - Oppenheimer

A question around health IT spending. Can you put a number around that amount for the quarter and should we think about that as one time in nature?

[Mark S. Heaney](#) - Chairman of the Board, President, CEO; President & CEO **Addus** HealthCare, Inc.

Our IT expenses is included in our G&A expense and part of that number that I alluded to, we don't break it out. It's not one time. As we deploy our technology we're giving a smartphone to every aide and that adds up fairly quickly when you have 16,000 aids and then there's the infrastructure behind it so we see this as an increase in our G&A.

Operator

Your next question comes from [Unidentified Analyst] – Sidoti & Company.

[\[Unidentified Analyst\]](#) - Sidoti & Company

Just a couple of questions. First, it is my understanding that at least half of the Medicaid recipients in Illinois must move into managed care by January 1st but at this point you're not seeing any of that, right? Is it fair to assume that it is probably after September?

[Darby Anderson](#) - Vice President Home & Community Services of **Addus** Healthcare

I didn't hear the first part of your question.

[\[Unidentified Analyst\]](#) - Sidoti & Company

I'm under the impression that about half of the Medicaid recipients in Illinois must move into managed care by January 1st. I'm not sure if that's still correct and I'm just wondering if you're seeing that already or it's not going to be until towards the end of the year?

[Darby Anderson](#) - Vice President Home & Community Services of **Addus** Healthcare

That's a legislative mandate, it's actually a law under the SMART Act that you're citing and then the state is continuing to take all kinds of efforts to move their Medicaid population into managed care. The duals and the integrated care program that I talked about are a big part of that so to the question, we're seeing it in a small way. We'll start seeing that to ramp up with significant change in September, as I referenced, with our community care program consumers in the duals project.

[\[Unidentified Analyst\]](#) - Sidoti & Company

Again, with regards to the acquisitions in the fourth quarter, you've had one quarter now, would you say that it's meeting your expectations or exceeding it, or again feeling more confident you can go forward and do some more of these deals?

[Darby Anderson](#) - Vice President Home & Community Services of **Addus** Healthcare

They're meeting our plans through the quarter. We continue to work on integration both New Mexico and Tennessee are important managed care states so as we look at the MCO opportunity as an organization we look at it enthusiastically in those states as well and we'll continue to work on it.

[Mark S. Heaney](#) - Chairman of the Board, President, CEO; President & CEO **Addus** HealthCare, Inc.

In terms of the acquisitions the fact is, as Darby described, we transitioned these sites, brought them on I think very, very well. We have a prospecting team that is first rate and we have a pipeline, we have cash and [we have aligned] and we are looking for good strategic acquisitions.

[\[Unidentified Analyst\]](#) - Sidoti & Company

Finally, as it relates to the internal controls in [inaudible], how is that coming along and sort of what time frame do you think you will be able to have that completed?

[Dennis Meulemans](#) - Chief Financial Officer, Vice President & Secretary

We do have a plan and we have brought in some outside assistance in areas where we needed that help. It is being monitored by our audit chair, our performance against that plan. We are in the process of making those process changes and remediation efforts. We will begin testing in the third quarter. BDO signs off on that on an annual basis and that will be at year end.

Operator

(Operator Instructions) Your next question comes from [Unidentified Analysts] – Stephens, Inc.

[Unidentified Analysts] – Stephens, Inc.

Mark, could you just give an update on the care system technology, how many sites it's been deployed at? I think you were maybe trying to rollout 2.0 this year? Just any updates there?

[Darby Anderson](#) - Vice President Home & Community Services of **Addus** Healthcare

About 30 of our sites are currently up on our care system and with the majority of our employees in some form of an electronic visit verification system which goes hand-in-hand with that care system. I think some of the developments that I referenced earlier, we've established some more key metrics around the utilization of our applications that we talked about as self service to our employees and so we're really driving and enhancing that application to give them greater options in terms of communicating changes in condition and just other elements of service delivery, sort of the logistics of the business as well.

[Unidentified Analysts] – Stephens, Inc.

Dennis, on the spend there for the technology, I know you're not breaking out number specifically but are there any significant enhancing features that you're going to have to spend on this year or are we at a pretty steady state these days?

[Dennis Meulemans](#) - Chief Financial Officer, Vice President & Secretary

The spend is two-fold when we're developing an application that is going to be deployed we capitalize that and you'll see that come through in amortization and you'll see that in the cash flow statements as investments there. The investment in our operating infrastructure to make that go is – and think about it this way, Darby said 30 sites, we give everybody a cell phone that's \$18 a month that adds to that costs. So, as we deploy that cost will increase.

[Unidentified Analysts] – Stephens, Inc.

Then Darby, can you give an update on the two pilot programs you have going in Illinois? I know they were in their infancy last time we talked and just I think you at some point wanted to publish some results on that?

Darby Anderson - Vice President Home & Community Services of **Addus** Healthcare

We continue to work through the day-to-day utilizing the technology to enhance the personal care services which is the goal of the program. We've had ongoing discussions with dual plans and I think have come to an understanding on the evaluation metrics that we want to use. I don't see us though getting the data fully under our belts towards the end of the year and I think I said this in our last call, but publishing results out of that pilot I would expect end of this year or into the first quarter of '15.

Mark S. Heaney - Chairman of the Board, President, CEO; President & CEO **Addus** HealthCare, Inc.

Darby, you met with leadership from the MCO even recently? Can you characterize how are they feeling about things?

Darby Anderson - Vice President Home & Community Services of **Addus** Healthcare

Very positive. It's an exciting opportunity and in your previous question I should have maybe answered a little bit more enthusiastically. I love what our IT department does and I think we have the right balance of people that understand systems and technology but understand homecare and understand and take a very creative approach to problem resolution utilizing technology which is really an advantage to us. I think in the conversations in these pilots and with managed care they see that. They see that even from their seat so it's very positive.

[Unidentified Analysts] – Stephens, Inc.

Going back to the weather I just want to understand, you answered Matt's question on the lower hours per census, I think I know the answer but if you can just confirm if you miss a visit that those hours are gone, is that right? You can't make them up on the back end?

Dennis Meulemans - Chief Financial Officer, Vice President & Secretary

First of all, we are prioritizing our emergent clients and they get care. It doesn't matter what the weather is, there are folks that just have to get served. Other consumers, when the weather is

inclement, the roads are closed, etc., family is with them and to be honest with you often times the clients call and say, “Please don’t send somebody because it’s not safe.” So we love to get those calls from our consumers caring about our aids.

When it comes to service make up there are specific rules in all of our different programs across the country about making up hours so we do that within those regulations but only to the degree we can make up hours for tasks that actually need to get completed or can get completed on a subsequent day. We have hours built into our care plans for bathing or meal preparation, it’s not like we’re going to go out and give somebody two baths in a day or two lunches so there is some opportunity to make up those hours but certainly not completely.

[Unidentified Analysts] – Stephens, Inc.

Last one for me Dennis, I think you answered it in the prepared remarks but the gross margin differential between the same store and the acquisitions, it’s a function of lower labor costs in the acquisition so you don’t see where there’s an opportunity to close that gap and get the same store closer to where the acquisitions are?

[Dennis Meulemans](#) - Chief Financial Officer, Vice President & Secretary

No, I don’t on that particular point. It would be nice but I don’t think we can get there.

Operator

Thank you so much for your questions. I will now turn the conference over to the management for closing remarks.

[Mark S. Heaney](#) - Chairman of the Board, President, CEO; President & CEO **Addus** HealthCare, Inc.

I’d be remiss if I didn’t tell you getting ready for the call, putting the press release together, Dennis comes in and says to me, “Should we put that we’re in Palatine or Downers Grove?” I said, “Well, today we’re in Palatine so put Palatine.” Today, is the last day we’ll be in our current corporate offices. We don’t call them corporate we call them support center. We are moving tomorrow to, if you’re familiar with the Chicago area, we’re moving directly west of the city in the western suburbs a couple of miles west of Oakbrook in a town called Downers Grove.

We are just excited about it. We are moving into a much large space with the space to grow. The technology infrastructure is multiples of what we’re experiencing where we are. We built out a large first class contact center, training and AV materials so it’s right in the center of the Chicagoland area. We are really excited about the move and I just wanted you to know we did do Palatine and we move to our new digs in Downers Grove Illinois so we’ll talk to you from there in 90 days or so.

With that, thank you all so much. Thank you for your support. Talk to you in a bit.

Operator

Ladies and gentlemen that concludes today's conference. Thank you so much for your participation. You may now disconnect. Have a great day.

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