

## EARNINGS UPDATE – Q1 FY12



**July 2011**

**SKS Microfinance Limited**

BSE: 533228 NSE: SKSMICRO

[www.sksindia.com](http://www.sksindia.com)

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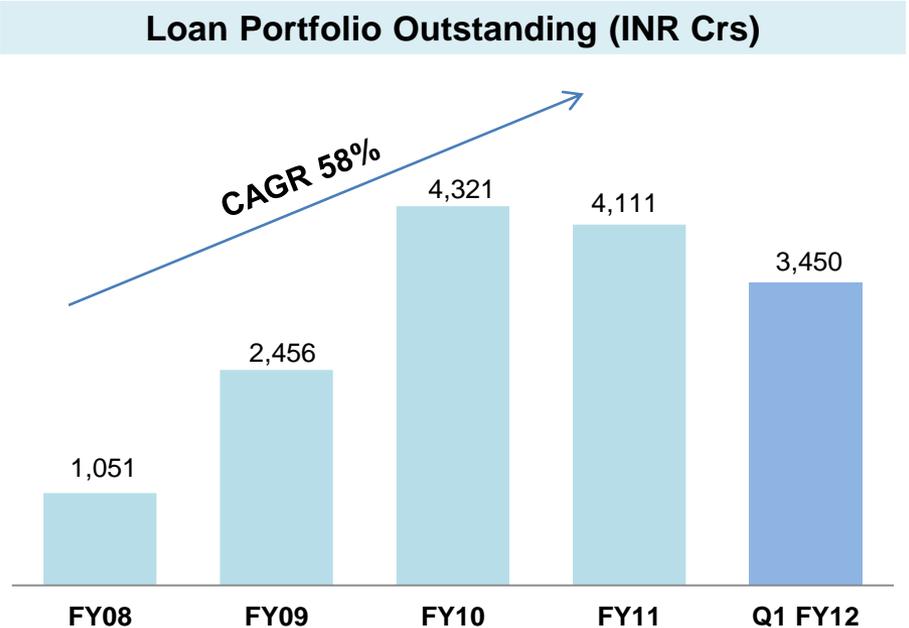
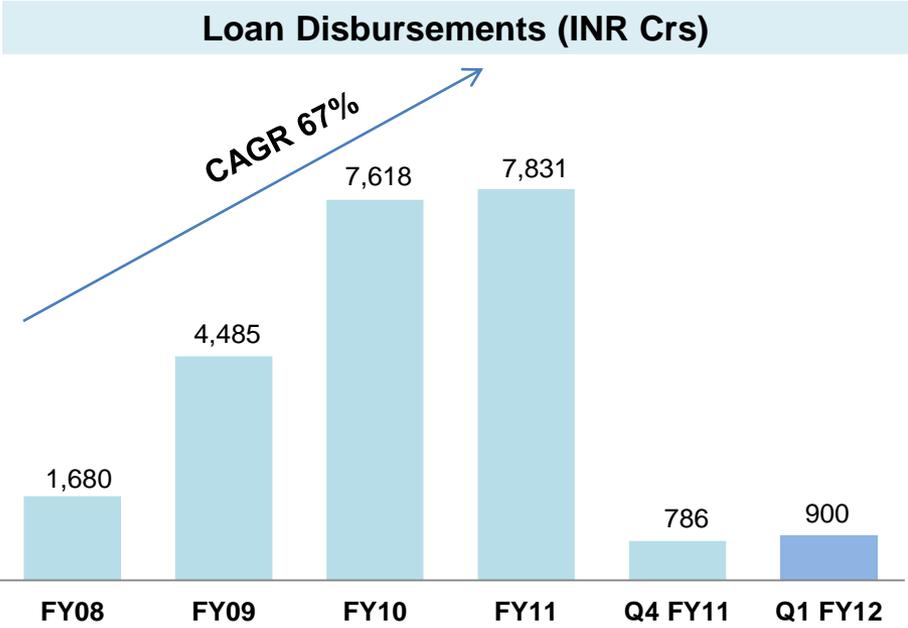
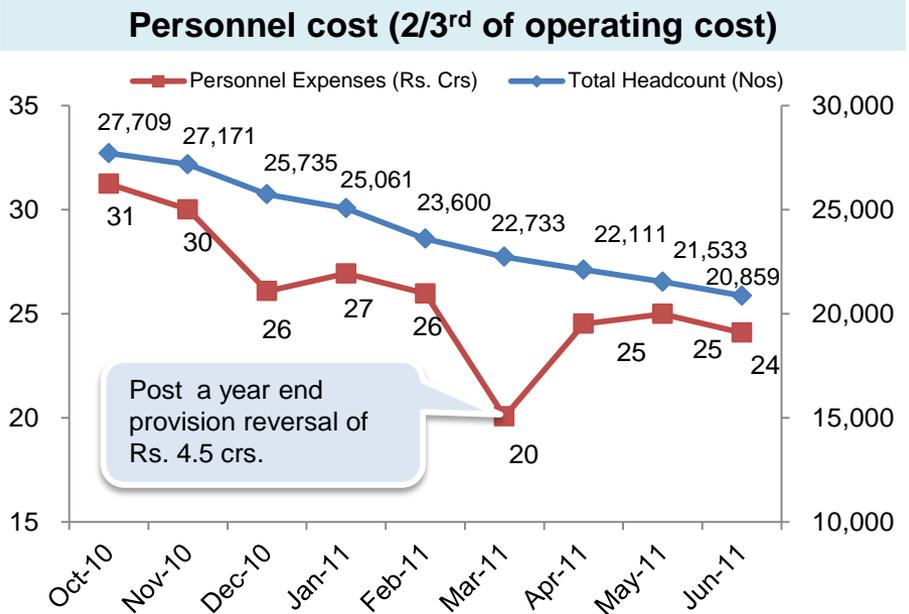
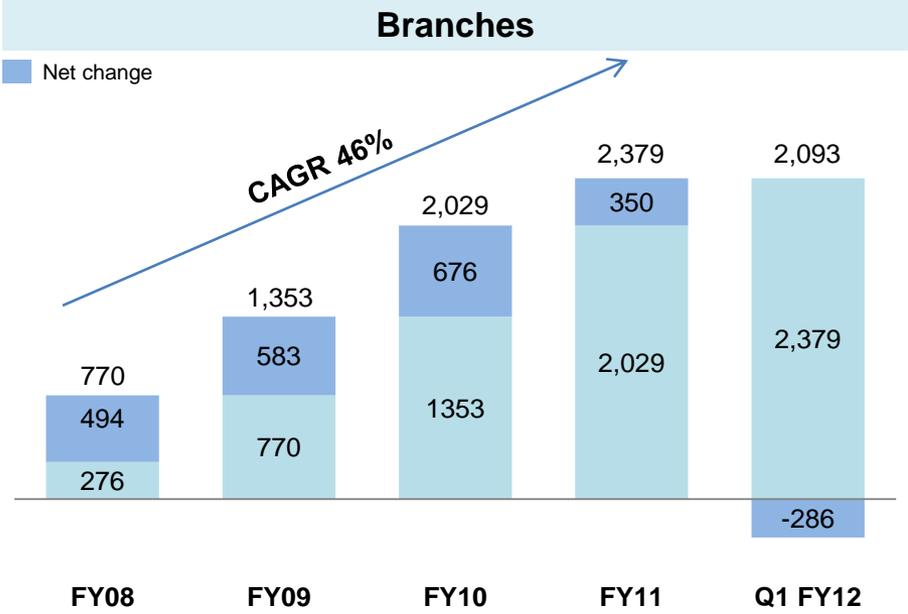
# PERFORMANCE HIGHLIGHTS

# HIGHLIGHTS – Q1 FY12

- 2,093 branches across 19 States
- Total member base stands at 6.9 million
- Incremental loan disbursements of Rs. 900 crores for Q1-FY12 (up 14% QoQ)
- Gross Loan portfolio stands at Rs. 3,450 crores including assigned loans of Rs. 390 crores (down 16% QoQ)
- Revenue of Rs. 177 crores for Q1-FY12 (down 9% QoQ)
- Reported Loss of Rs. 219 crores for Q1-FY12 on account of credit cost of Rs. 184 crores and deferred tax asset reversal of Rs. 95 crores.
- Networth of Rs. 1,563 crores and cash & bank balances of Rs. 281 crores as at 30<sup>th</sup> June, 2011
- Incremental credit limits sanction of Rs. 340 crores in Q1-FY12
- **RBI institutionalises a comprehensive regulatory frame work for NBFC - MFIs based on Malegam Committee Recommendations, bringing in the much needed regulatory clarity. Priority Sector Status for MFI advances continues.**
- **Introduction of Draft Microfinance (Development and Regulation) Bill- 2011 by Ministry of Finance adds to regulatory clarity by deputing RBI as the sole regulator.**
- **Board approves QIP issue of upto a maximum of Rs. 900 crores to bring in growth capital to meet the widening demand-supply gap in Non-AP states.**

# **OPERATIONAL HIGHLIGHTS**

# SKS' CONSOLIDATION STRATEGY STARTS YIELDING RESULTS



\* Loan portfolio outstanding includes assigned loans & portfolio loans on balance sheet

# OPERATIONAL HIGHLIGHTS

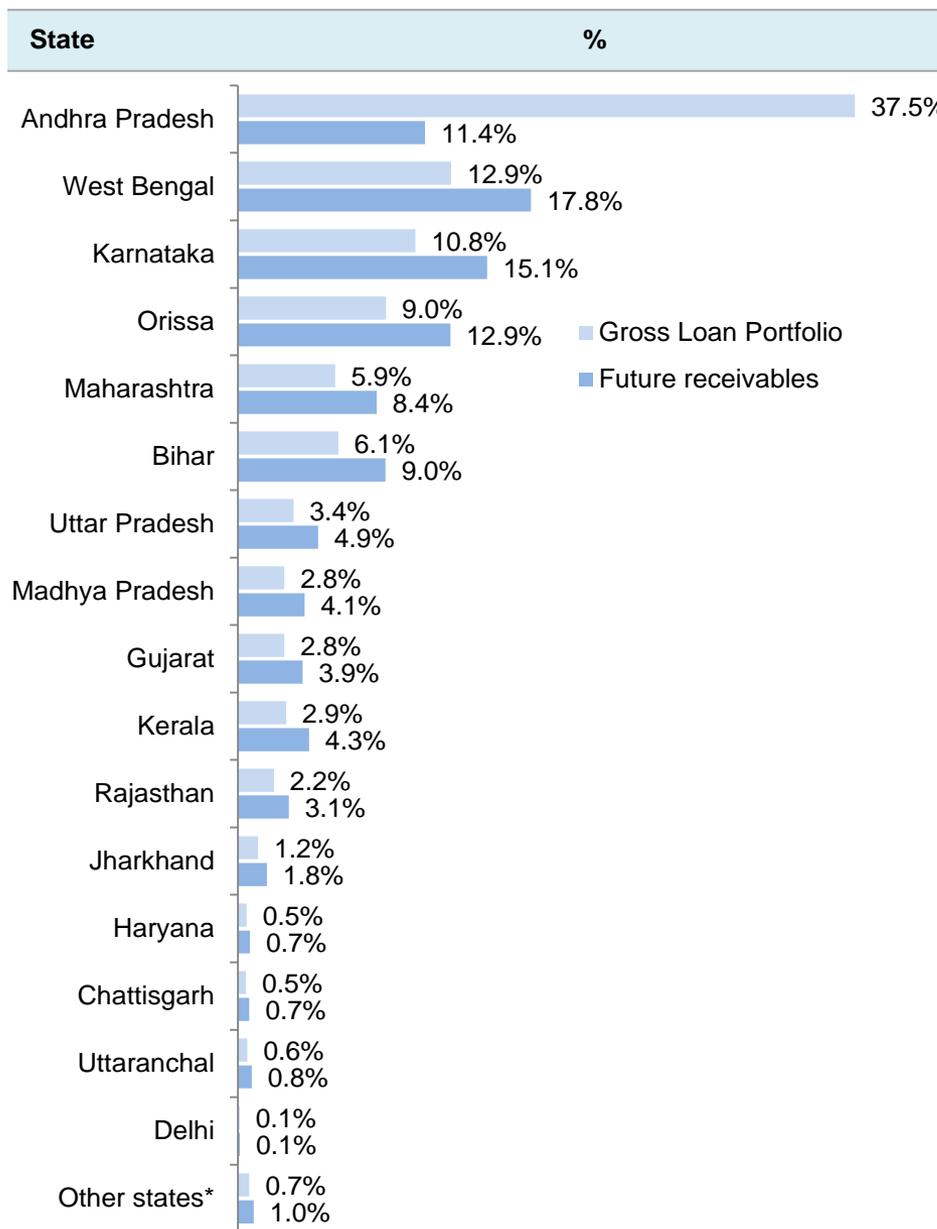
Particulars	Jun-10	Jun-11	YOY%	Mar-11	QoQ%
Branches	2,266	2,093	-8%	2,379	-12%
Centers (Sangam)	249,621	268,826	8%	274,782	-2%
Employees (i) + (ii) + (iii) + (iv) + (v) + (vi)	23,313	20,859	-11%	22,733	-8%
• Field Staff (i) + (ii) + (iii) + (iv) + (v)	22,885	20,503	-10%	22,332	-8%
– Sangam Managers* (i)	12,785	13,821	8%	15,331	-10%
– Sangam Managers Trainees(ii)	3,600	49	-99%	95	-48%
– Branch Management Staff (iii)	3,746	3,840	3%	3,957	-3%
– Area Managers (iv)	208	166	-20%	177	-6%
– Regional Staff (v)	2,546	2,627	3%	2,772	-5%
• Head Office Staff (vi)	428	356	-17%	401	-11%
Members (in '000)	7,284	6,879	-6%	7,307	-6%
Active borrowers (in '000)	6,231	5,615	-10%	6,242	-10%
No. of loans disbursed* *(in '000)	2,181	890	-59%	728	22%
Disbursements (for the quarter) (INR Crs)	2,283	900	-61%	786	14%
Off-take Avg (Disbursements / No of Loans disbursed )(INR)	10,468	10,116	-3%	10,808	-6%
Gross loan portfolio (INR Crs) (A+B)	4,578	3,450	-25%	4,111	-16%
• Loans outstanding (A)	3,577	3,060	-14%	3,479	-12%
• Assigned loans (B)	1,002	390	-61%	632	-38%
<b>Operational Efficiency:</b>					
Gross loan portfolio/ No. of Sangam managers (Rs. '000)	3,581	2,496	-30%	2,681	-7%
Gross loan portfolio/ Active Borrowers (INR)	7,347	6,144	-16%	6,585	-7%
Members / No. of Branches	3,214	3,287	2%	3,071	7%
Members / No. of Sangam managers	570	498	-13%	477	4%

\* Sangam Managers are our loan officers, who manage our centers (also called as Sangams). Also includes Gold loan officers.

\*\* Doesn't include life insurance and housing loans.

# AP EXPOSURE REDUCES AND THERE IS NO SIGN OF CONTAGION IN NON-AP STATES

**State wise – Portfolio Mix Q1FY12**



**State wise – Collection Efficiency**

State	Q1FY12
Andhra Pradesh	12.1%
West Bengal	88.3%
Karnataka	99.1%
Orissa	96.8%
Maharashtra	97.5%
Bihar	99.4%
Uttar Pradesh	99.4%
Madhya Pradesh	98.6%
Gujarat	95.1%
Kerala	99.9%
Rajasthan	99.0%
Jharkhand	98.7%
Haryana	99.2%
Chhattisgarh	99.6%
Uttaranchal	99.8%
Delhi	90.3%
Other states*	91.5%

\*\* Net AP portfolio (after provision) is 35% of total portfolio

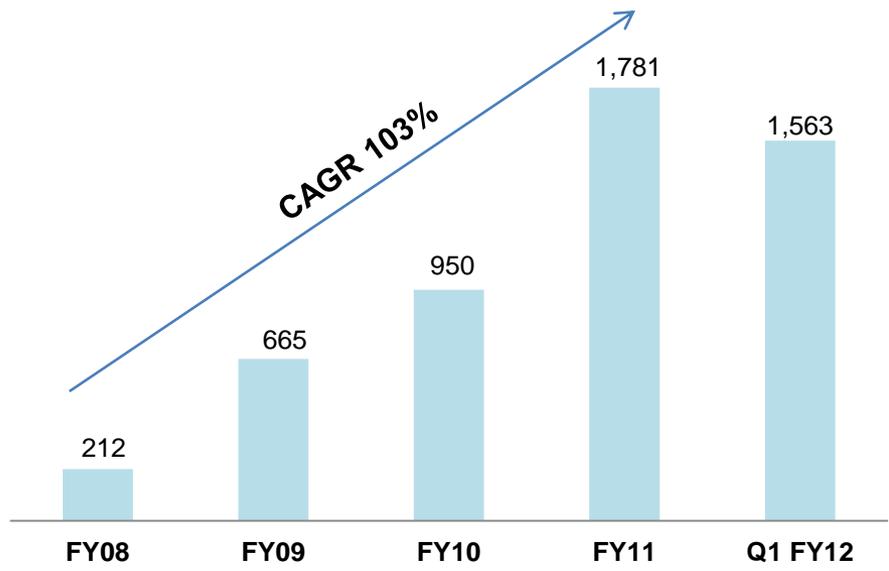
\* Other states include Punjab, Tamil Nadu & Himachal Pradesh

# REVIEW OF FINANCIALS

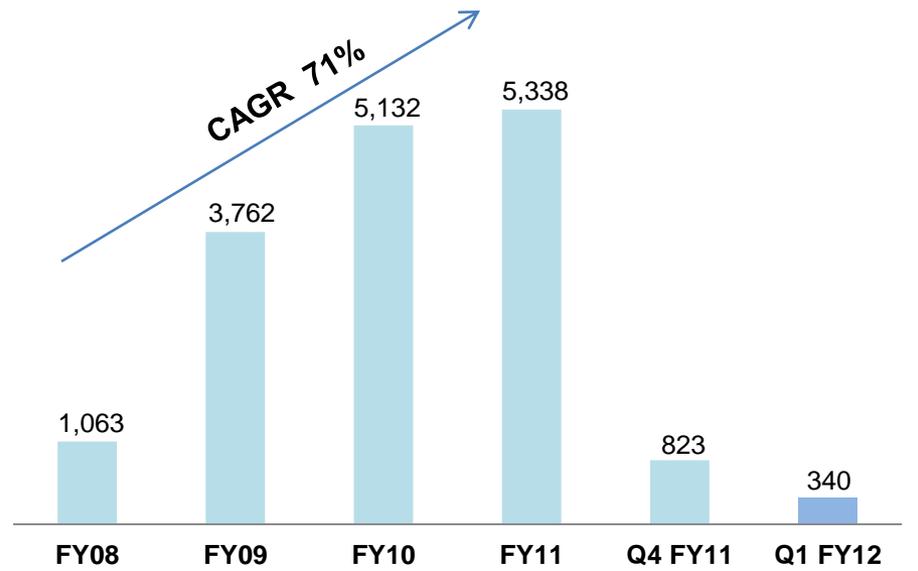
# STRONG NETWORKH ADDS TO SKS' COMPETITIVE EDGE

INR Crs

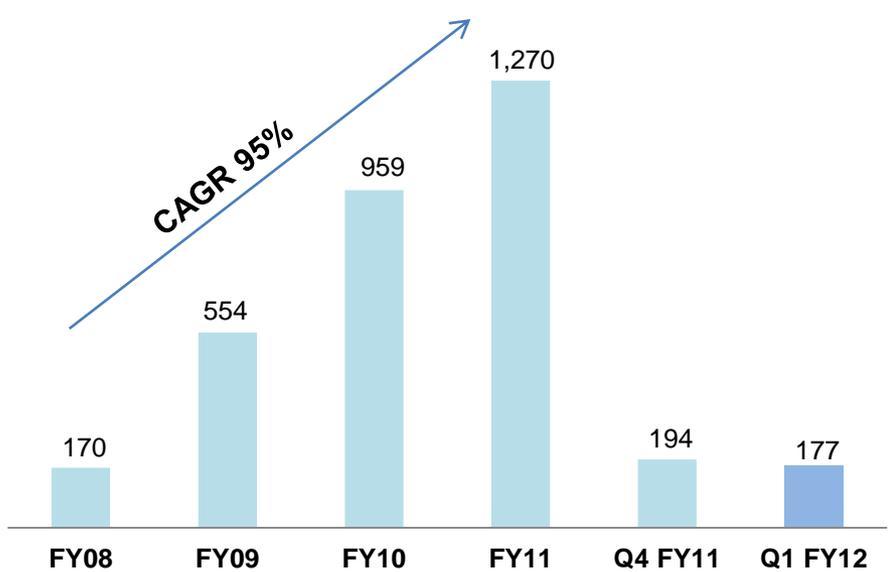
## Networkh



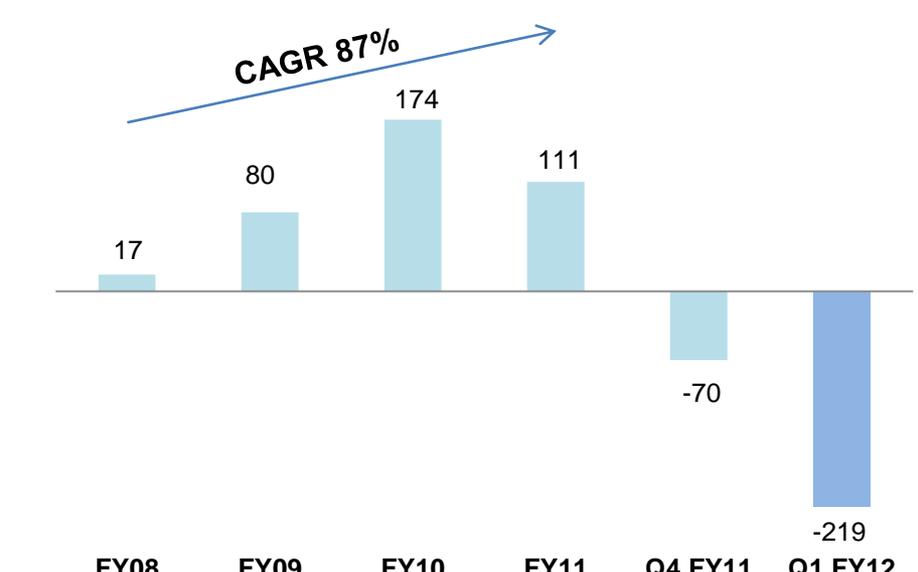
## Incremental Debt Raised\*



## Gross Revenue



## Profit After Tax



\* Amount of Sanctions received

# PROFIT AND LOSS STATEMENT FOR THE QUARTER ENDED

INR Crs.

Particulars	Q1 FY11	Q1 FY12	YoY %	Q1 FY12 As % of Total Revenue	Q4 FY11	QoQ %
<b><u>Income from Operations</u></b>						
Interest income on Portfolio loans	225	128*	-43%	72%	162*	-21%
Income from Assigned loans	55	22	-61%	12%	9	155%
Membership fee	4	-	-100%	0%	-	-108%
Loan processing fees	-	0.3	-	0.1%	-	-
<b><u>Other Income</u></b>						
Insurance commission	4	1	-72%	1%	1	-11%
Group Insurance admin. charges	17	11	-34%	6%	16	-29%
Income on Investments	5	6	18%	3%	3	68%
Miscellaneous Income	4	9	120%	5%	3	232%
<b>Total Revenue</b>	<b>314</b>	<b>177</b>	<b>-44%</b>	<b>100%</b>	<b>194</b>	<b>-9%</b>
<b>Financial expenses</b>	<b>73</b>	<b>63</b>	<b>-14%</b>	<b>36%</b>	<b>87</b>	<b>-27%</b>
Personnel expenses	82	74	-10%	42%	68	8%
Operating and other expenses	41	37	-10%	21%	34	10%
Depreciation and amortization	4	2	-43%	1%	3	-28%
<b>Total Operating Cost</b>	<b>127</b>	<b>113</b>	<b>-11%</b>	<b>64%</b>	<b>106</b>	<b>7%</b>
<b>Provision &amp; Write-offs</b>	<b>12</b>	<b>184</b>	<b>1436%</b>	<b>104%</b>	<b>106</b>	<b>73%</b>
<b>Total Expenditure</b>	<b>212</b>	<b>360</b>	<b>70%</b>	<b>204%</b>	<b>299</b>	<b>20%</b>
<b>Profit before Tax</b>	<b>102</b>	<b>(183)</b>	<b>-280%</b>	<b>-104%</b>	<b>(105)</b>	<b>75%</b>
Tax expense	35	36	3%	20%	(35)	-202%
<b>Profit after Tax</b>	<b>67</b>	<b>(219)</b>	<b>-428%</b>	<b>-124%</b>	<b>(70)</b>	<b>214%</b>

\* Income on AP portfolio recognised not on accrual basis, but on cash basis

# DEFERRED TAX BENEFIT CAN BE AVAILED IN FUTURE

- Reversed Deferred Tax Assets (DTA) of Rs. 95 Crs
- Rs. 95 Crs of DTA will be available to off-set taxes on future taxable income and to add to the reported PBT

*INR Crs*

<b>Deferred Tax Asset</b>	<b>Amount</b>
Opening 31 <sup>st</sup> March'11	36
Add: DTA eligibility in Q1FY12	59
<b>Total DTA (de-recognised in Q1 FY12)</b>	<b>95</b>
Re-constructed Loss after tax	(124)
Re-constructed Net worth	1,658

# PROVISIONS & WRITE OFF

INR Crs.

Particulars	Q4 FY11			Q1 FY12		
	AP	Non-AP	Total	AP	Non-AP	Total
Provision for Standard /NPA Assets	(10.6)	27.4	16.8	109.8	(20.4)	89.5
Bad debts written off	37.9	13.9	51.8	11.6	76.1	87.7
Loss on short collection on Off B/S	29.4	8.3	37.6	4.8	1.8	6.6
<b>Total</b>	<b>56.6</b>	<b>49.6</b>	<b>106.2</b>	<b>126.2</b>	<b>57.5</b>	<b>183.7</b>

# STRONG CAPITAL BASE DRIVE SKS' BALANCE SHEET

INR Crs.

Particulars	Q1 FY11	Q1 FY12	YoY %	Q4 FY11	QoQ %
Equity share capital	65	72	12%	72	0.05%
Stock options outstanding	6	10	54%	9	8%
Reserves and surplus	956	1,481	55%	1,699	-13%
<b>Capital &amp; Reserves</b>	<b>1,027</b>	<b>1,563</b>	<b>52%</b>	<b>1,781</b>	<b>-12%</b>
Loan funds	2,762	1,724	-38%	2,236	-23%
Current liabilities and provisions	420	184	-56%	218	-16%
Provision for standard and non performing asset	13	154	1080%	65	138%
<b>Liabilities</b>	<b>3,194</b>	<b>2,062</b>	<b>-35%</b>	<b>2,519</b>	<b>-18%</b>
<b>Total Liabilities</b>	<b>4,221</b>	<b>3,625</b>	<b>-14%</b>	<b>4,300</b>	<b>-16%</b>
Fixed assets	22	20	-6%	22	-6%
Intangible assets	8	8	-1%	9	-10%
Investment	0.2	0.2	0%	4	-95%
Deferred tax assets (net)	11	-	-100%	36	-100%
Cash and bank balances	<b>469</b>	<b>281</b>	<b>-40%</b>	<b>558</b>	<b>-50%</b>
Sundry debtors	3	4	17%	2	106%
Other current assets	18	16	-7%	16	4%
Portfolio loans	3,577	3,060	-14%	3,479	-12%
Other loans and advances	103	234	126%	175	34%
<b>Total Loans and Advances</b>	<b>3,680</b>	<b>3,294</b>	<b>-10%</b>	<b>3,654</b>	<b>-10%</b>
Miscellaneous expenditure	11	-	-100%	-	-
<b>Total Assets</b>	<b>4,221</b>	<b>3,625</b>	<b>-14%</b>	<b>4,300</b>	<b>-16%</b>
Note: 1. Assigned Portfolio	<b>1,002</b>	<b>390</b>	<b>-61%</b>	<b>632</b>	<b>-38%</b>
2. Gross Loan Portfolio	<b>4,578</b>	<b>3,450</b>	<b>-25%</b>	<b>4,111</b>	<b>-16%</b>

Note: Figures rounded wherever necessary; percentages are based on decimals

# HIGHER CREDIT COSTS IMPACT PROFITABILITY FOR Q1 FY12

Particulars		Q1 FY11	Q4 FY11	Q1 FY12
<b>Spread Analysis ( as % of Avg. Gross Loan Portfolio)</b>				
Gross Yield	(I)	28.2%	17.0%	18.7%
Portfolio Yield		25.2%	15.0%	15.8%*
Financial Cost	(a)	6.6%	7.6%	6.7%
Operating Cost	(b)	11.4%	9.2%	12.0%
Provision and Write-offs	(c)	1.1%	9.3%	19.4%
Taxes	(d)	3.1%	-3.1%	3.8%
Total Expense	II = (a+b+c+d)	22.2%	23.1%	41.8%
<b>Return on Avg. Gross Loan Portfolio</b>	(I) - (II)	6.0%	-6.1%	-23.1%
<b>Efficiency:</b>				
Cost to Income		52.8%	98.6%	99.4%
<b>Leverage:</b>				
Debt : Equity (on Balance Sheet)		2.7	1.3	1.1
<b>Capital Adequacy:</b>				
		<b>24.96%</b>	<b>45.39%</b>	<b>46.01%</b>
<b>Profitability:</b>				
Return on Avg. Assets		6.4%	-5.7%	-22.1%
Return on Avg. Assets (incl. assigned loans)		5.0%	-5.3%	-19.6%
ROE		27.1%	-15.4%	-52.3%
EPS - Diluted (INR)		10.04	(9.18)	(30.24)
Book Value (INR)		157.50	246.23	216.05

\* Q1FY12 Portfolio Yield would be 24.1% on accrual basis; Income on AP portfolio recognised not on accrual basis, but on cash basis

# STEADY STATE ROA UNDER REGULATED INTEREST RATE REGIME

Particulars	Steady State / Medium Term	
Margin		12.0%
Loan processing fees		2.1%
<b>Net portfolio yield</b>		<b>14.1%</b>
Other income		1.0%
<b>Total income</b>		<b>15.1%</b>
Operating cost	9.0%	
Provision & write offs	<b>1.5%</b>	
<b>Expenditure</b>	<b>10.5%</b>	
PBT		4.6%
Tax expense	1.5%	
<b>PAT (on debt portion of portfolio)</b>		<b>3.1%</b>
<b>Return on overall assets (including the portion funded by equity) with an assumed debt equity of 4:1</b>		<b>3.9%</b>

Note: Leverage Assumptions:- (a) Capital Adequacy 20%; (b) Debt: Equity 4 times.

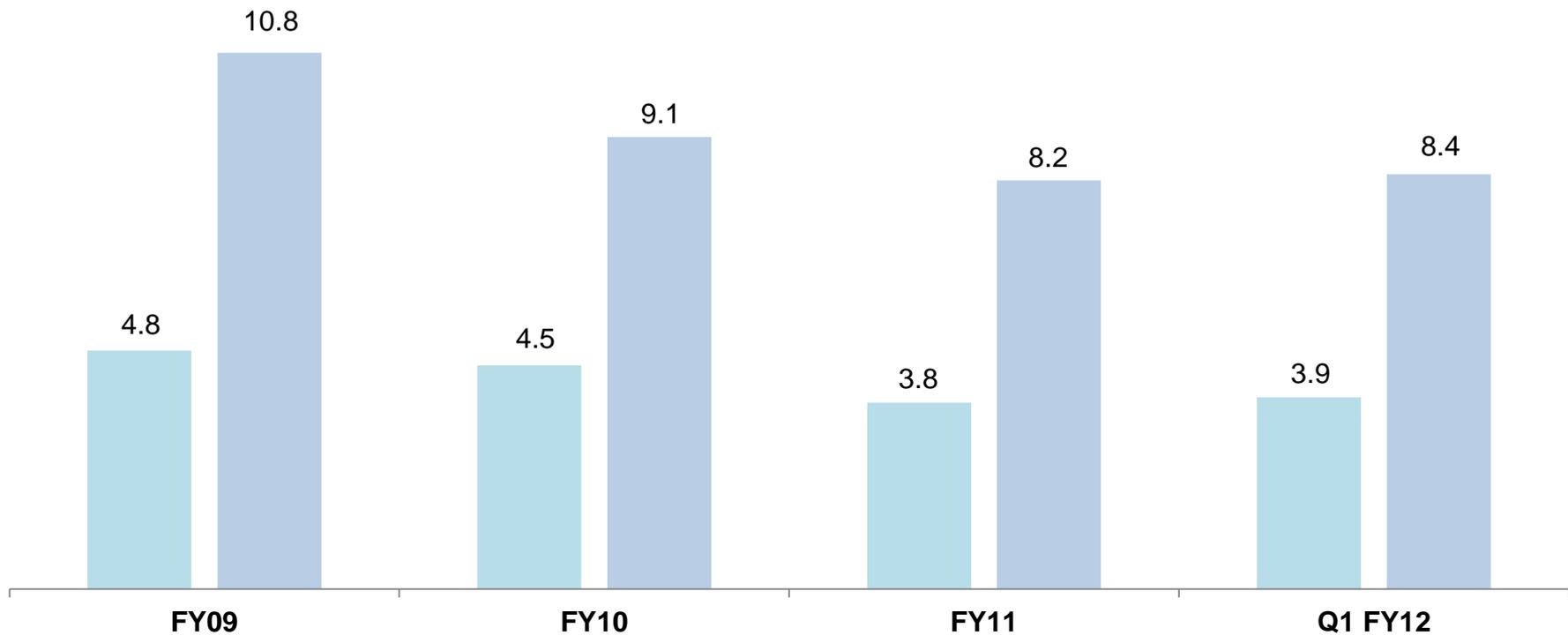
# FINANCIAL ARCHITECTURE

# FINANCIAL ARCHITECTURE (1/3)

## Positive Asset Liability Management Structure

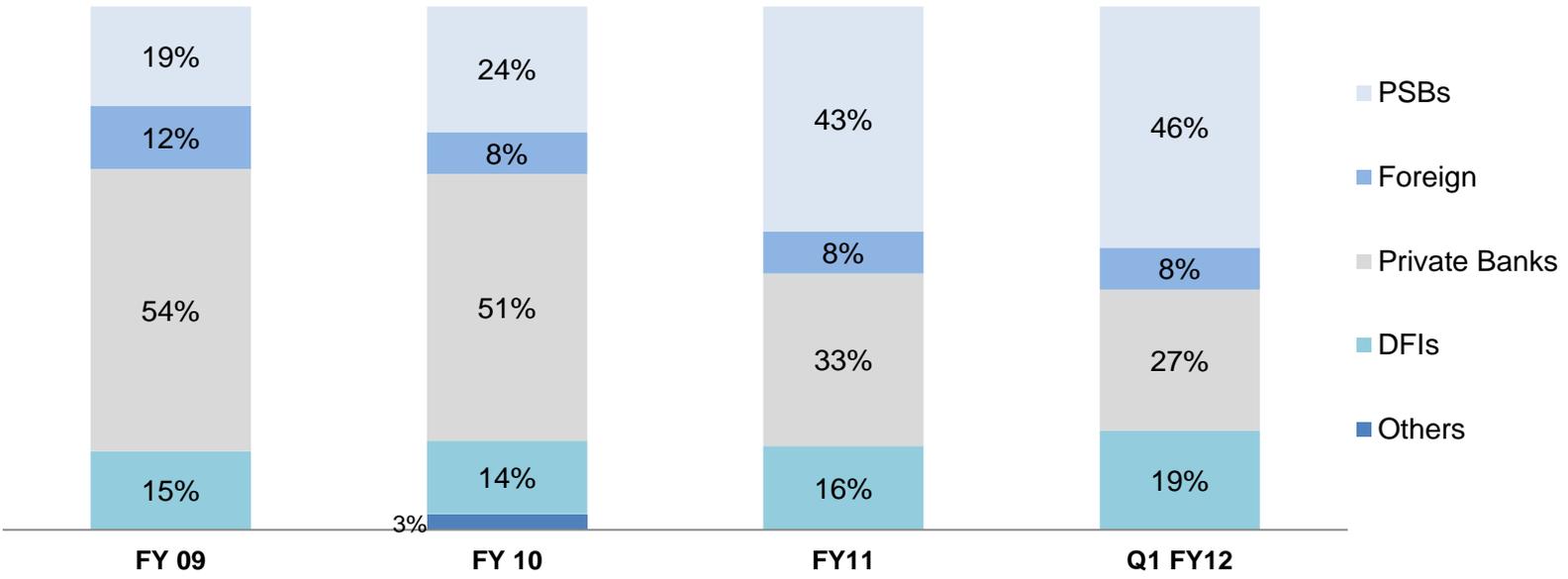
*No. of months*

■ Avg maturity of assets    ■ Avg maturity of liabilities

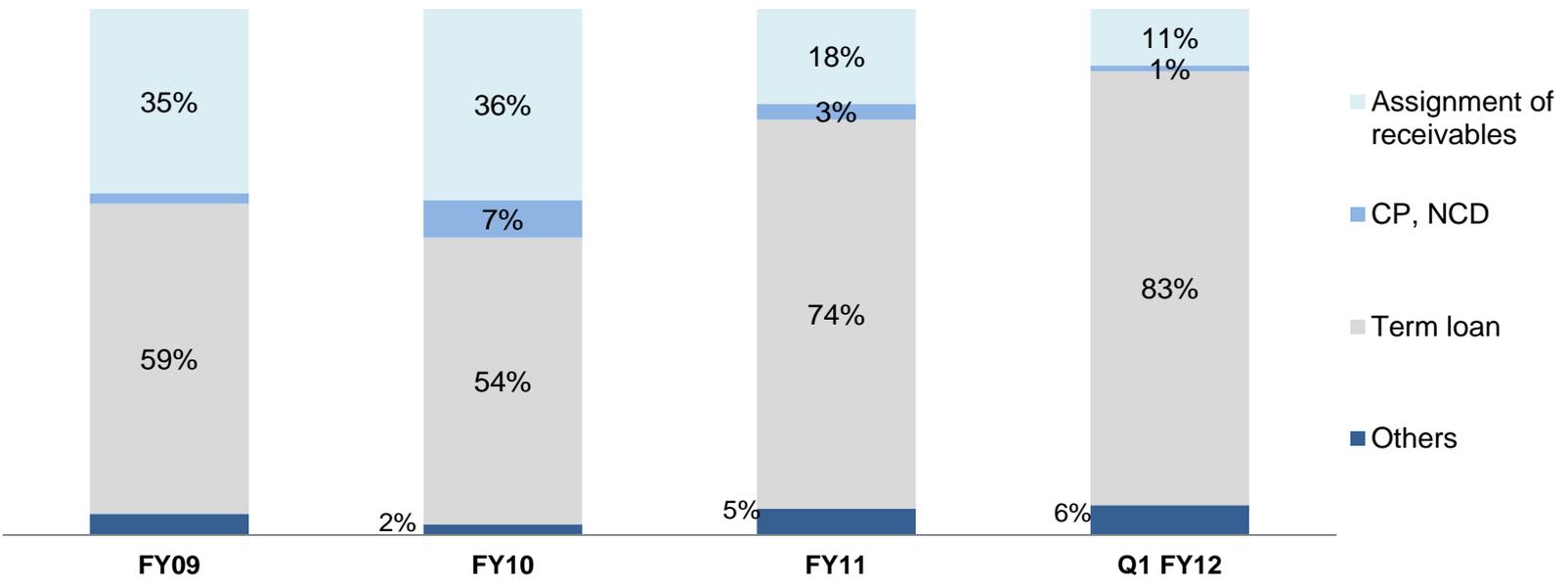


# FINANCIAL ARCHITECTURE (2/3)

## Lender Group Analysis

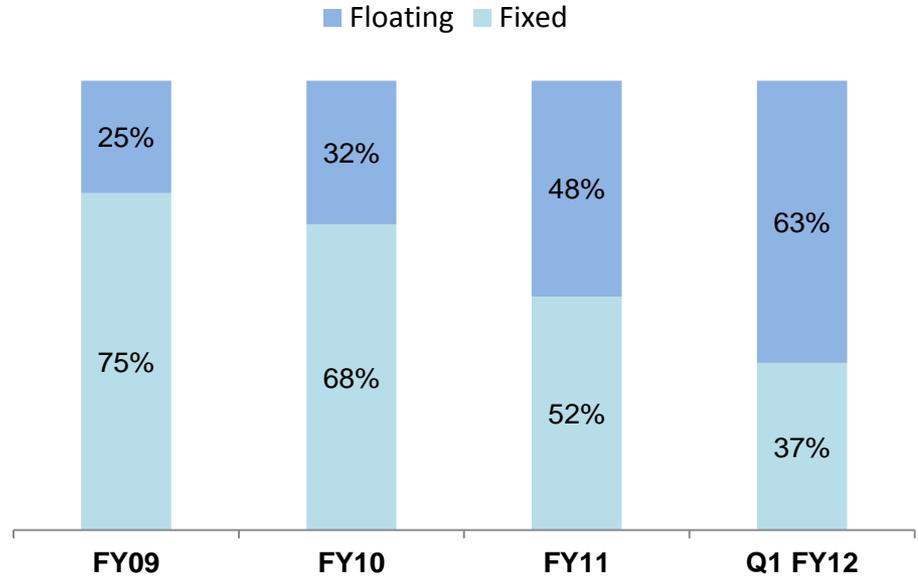


## Sources Mix



# FINANCIAL ARCHITECTURE (3/3)

## Interest Rate Risk Analysis



## Funding Cost Analysis

Metric	FY09	FY10	FY11	Q4FY11	Q1FY12
Cost of interest bearing liabilities	13.29%	11.94%	12.08%	12.77%	12.72%
Financial Cost*	11.1%	8.5%	7.4%	7.6%	6.7%

## Funding Mix-Devoid of Dependence Risk

Banks	June 30, 2011
SIDBI	13%
Yes Bank	11%
SBI Group	10%
Central Bank of India	9%
Citi Bank	8%
Andhra Bank	6%
IDBI Bank	6%
Axis Bank	6%
Syndicate Bank	5%
J&K Bank	5%
HDFC Bank	3%
TATA Capital	3%
Reliance Capital	3%
Vijaya Bank	2%
Corporation Bank	2%
Oriental Bank of Commerce	1%

**Total amount outstanding as of June'11: Rs 1,930 crores  
concentration risk on rest of the 22 banks is 1% or below**

\* Financial expenses to Avg. Gross Loan Portfolio

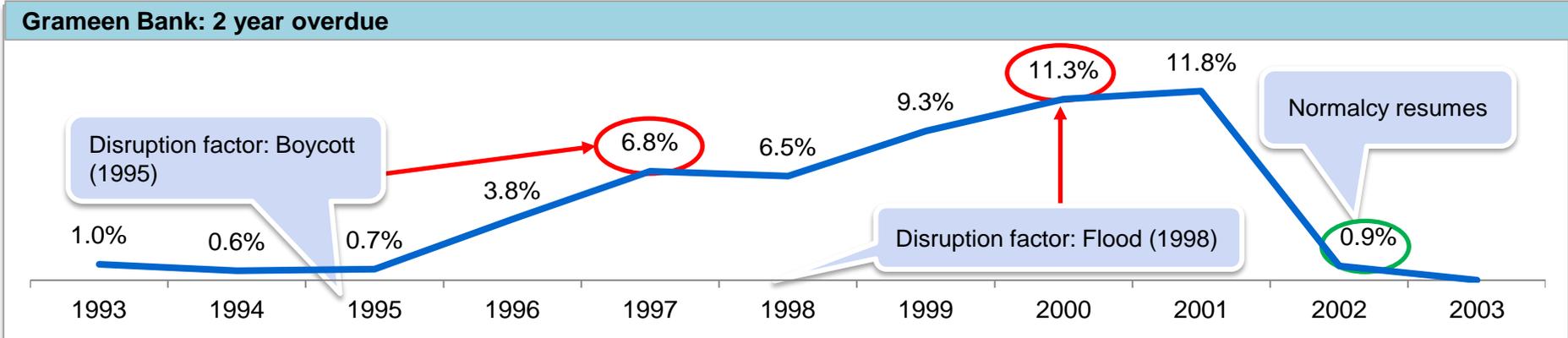
# **ANDHRA PRADESH UPDATE**

# AP SCENARIO – EVOLVING WITH DEVELOPING IMPLICATIONS

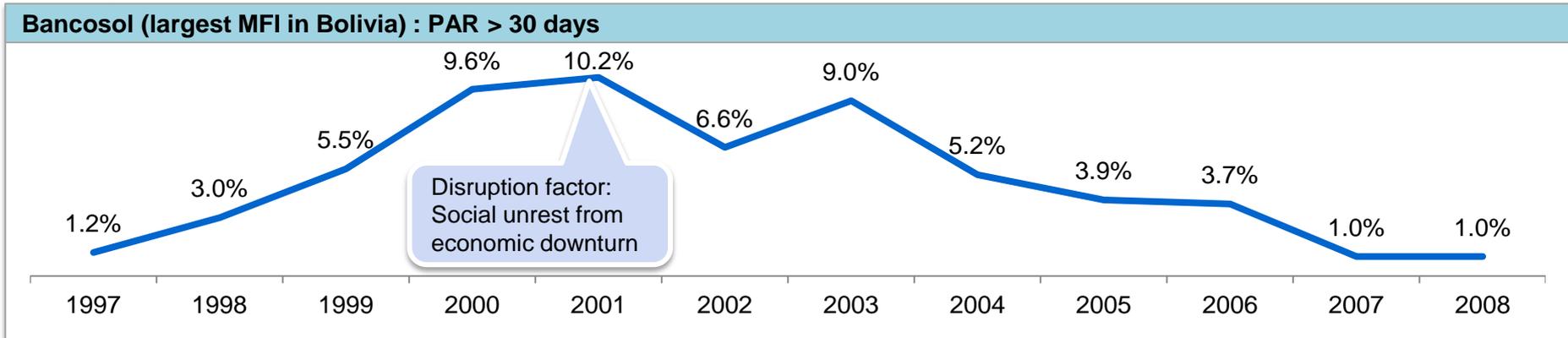
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| <b>January - 2011</b> | <b>RBI notifies to banks on credit support to MFIs</b> | <ul style="list-style-type: none"><li>▪ RBI issues notification to banks that MFI sector problems are not on account of credit weakness but due to environmental factors</li></ul> |
|-----------------------|--|--|
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|-----------------------|---|---|
| <b>January - 2011</b> | <b>Malegam Committee Recommendations notified</b> | <ul style="list-style-type: none"><li>▪ Calls for withdrawal of AP MFI Act</li><li>▪ Retains PSL status for MFIs</li><li>▪ Recommends a comprehensive regulatory framework replete with interest rate cap and regulation of operational aspects</li></ul> |
|-----------------------|---|---|
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|-------------------|--|---|
| <b>May - 2011</b> | <b>RBI institutionalizes regulatory framework for MFIs</b> | <ul style="list-style-type: none"><li>▪ RBI institutionalizes regulatory framework for MFIs largely in lines of Malegam Committee Recommendations</li><li>▪ Retains PSL status for MFIs</li><li>▪ Operationalize regulation of functional aspects</li></ul> |
|-------------------|--|---|
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- |                   |  |  |
|-------------------|--|--|
| <b>May - 2011</b> | <b>Supreme Court admits SKS' petition against AP MFI Act</b> | <ul style="list-style-type: none"><li>▪ State govt. given 4 weeks time to file counter</li><li>▪ Matter posted for final hearing by Sep 2011</li></ul> |
|-------------------|--|--|
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- |                    |  |   |
|--------------------|--|---|
| <b>July - 2011</b> | <b>Finance Ministry unveils draft MFI bill</b> | <ul style="list-style-type: none"><li>▪ Upon passage of this legislation in parliament the said Act will override the AP MFI Act</li><li>▪ Formation of MFI Development Fund enhances funding options</li><li>▪ Registration process with RBI likely to act as an entry barrier</li></ul> |
|--------------------|--|---|

# **ANALYSIS OF CREDIT BEHAVIOUR OF MICROFINANCE AS AN ASSET CLASS**

# A. INTERNATIONAL EXPERIENCE



Source: WSJ, Grameen Bank website



Source: Mix Market

# B. INDIAN EXPERIENCE

**Krishna district crisis occurred in 2006 due to dist. admin. intervention**

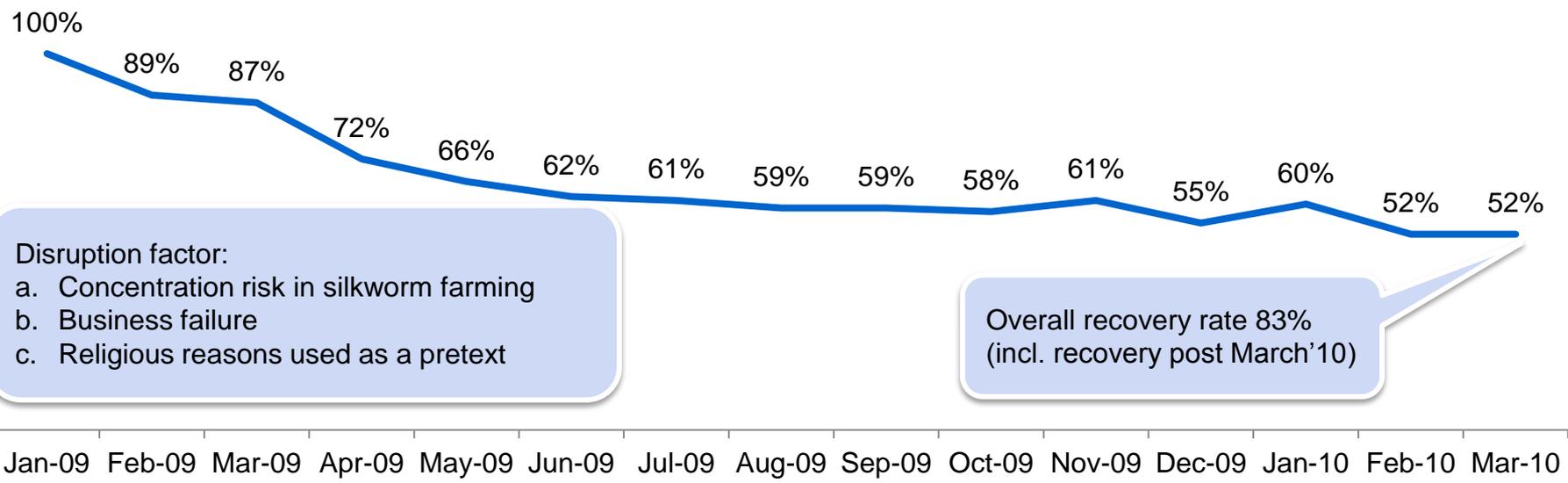
**Current scenario in Krishna district** – It is currently reporting the highest recovery rates (~40% vs. 10-20% for other districts across AP) – May'11. This shows that poor have learnt from the earlier crisis that if they don't pay back to MFIs, they will fall into moneylenders trap eventually or have to borrow from SHG programme

**SKS' presence in Krishna is 'nil or negligible'. But the adjoining district of Godavari reports the highest collection efficiency in SKS' portfolio too**

Source: Legatum report on AP Microfinance Crisis

# C. INTERNAL EXPERIENCE

**Kolar crisis Collection efficiency trend (collected against due) – 7 branches overall**



Kolar portfolio particulars (7 branches)		Amount (INR Crs)
Opening portfolio (Jan 09)		17.9
Disbursements (Jan09 – Mar10)		20.0
<b>Total</b>		<b>37.9</b>
Collections (Upto Mar 2010)	24.1	
Collections (post Mar 2010)	7.4	
<b>Total</b>		<b>31.5</b>
Recovery rate		83%
Write off amount		6.3
Write off ratio		17%

**International, Indian and Internal experiences establish that resumption of incremental disbursement results in substantial improvement in collection efficiency**

# **REGULATORY UPDATE**

# SKS IS FULLY EQUIPPED TO COMPLY WITH NEW RBI REGULATORY FRAMEWORK (1/2)

## RBI PSL Norms for NBFC-MFIs

## SKS compliance

<b>NBFC – MFIs</b>	<ul style="list-style-type: none"> <li>Qualifying assets to constitute not less than 85% of its total assets (excluding cash and bank balances)</li> <li>At least 75% of loans for Income generation activities</li> </ul>	<ul style="list-style-type: none"> <li>Qualifying assets - 93%</li> <li>Income generation loans &gt;95%</li> </ul>
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## Qualifying Assets Criteria\*

<b>Income of Borrower's Family</b>	<ul style="list-style-type: none"> <li>Rural : &lt;=Rs.60,000</li> <li>Non-Rural : &lt;=Rs. 1,20,000</li> </ul>	✓
<b>Ticket Size</b>	<ul style="list-style-type: none"> <li>&lt;= 35,000 – 1<sup>st</sup> cycle</li> <li>&lt;= Rs.50,000 – Subsequent cycle</li> </ul>	✓
<b>Indebtedness</b>	<ul style="list-style-type: none"> <li>&lt;= Rs. 50,000</li> </ul>	✓
<b>Tenure</b>	<ul style="list-style-type: none"> <li>If loan amt. &gt; Rs.15,000, then &gt;= 24 months</li> </ul>	✓
<b>Collateral</b>	<ul style="list-style-type: none"> <li>Without collateral</li> </ul>	✓
<b>Repayment Model</b>	<ul style="list-style-type: none"> <li>Weekly, Fortnightly and Monthly</li> </ul>	✓

\* SKS compliance relates to Income generation loans which contributes to 95% of total loans.

# SKS IS FULLY EQUIPPED TO COMPLY WITH NEW RBI REGULATORY FRAMEWORK (2/2)

## RBI PSL Norms for NBFC-MFIs

## SKS compliance

### Pricing Guidelines

<b>Interest Rate</b>	<ul style="list-style-type: none"> <li>Margin cap – 12% above cost of borrowings</li> <li>Maximum rate – 26% p.a.</li> </ul>	<ul style="list-style-type: none"> <li>24.6%</li> </ul>
<b>Processing Fees</b>	<ul style="list-style-type: none"> <li>&lt;= 1% of loan amt.</li> </ul>	<ul style="list-style-type: none"> <li>✓</li> </ul>
<b>Insurance Premium</b>	<ul style="list-style-type: none"> <li>Actual cost of insurance can be recovered from borrower and spouse</li> <li>Administrative charges can be recovered as per IRDA guidelines</li> </ul>	<ul style="list-style-type: none"> <li>✓</li> </ul>
<b>Penalty</b>	<ul style="list-style-type: none"> <li>No penalty for delayed payment</li> </ul>	<ul style="list-style-type: none"> <li>✓</li> </ul>
<b>Security Deposit</b>	<ul style="list-style-type: none"> <li>No security deposit/ margin to be taken</li> </ul>	<ul style="list-style-type: none"> <li>SKS has never taken security deposit/ margin</li> </ul>

# ANNEXURE

# OUR PROVISIONING POLICY

		<u>RBI norms</u>	<u>SKS compliance</u>	
			<u>A.P.</u>	<u>Non A.P.</u>
<b>Asset Classification</b>	<b>Standard Assets</b>	Up to 180 days	Up to 180 days	0-8 weeks
	<b>Sub-Standard Assets</b>	180-720 days	180-720 days	8-25 weeks
	<b>Loss Assets</b>	> 720days	>720 days	> 25 weeks
-----				
<b>Provisioning Norms</b>	<b>Standard Assets</b>	0.25%	0.25%	0.25-1%
	<b>Sub-Standard Assets</b>	10%	10%	50%
	<b>Loss Assets</b>	100% provision / Write off	100% provision / Write off	100%

# HIGHEST SAFETY RATINGS ACROSS INSTRUMENTS

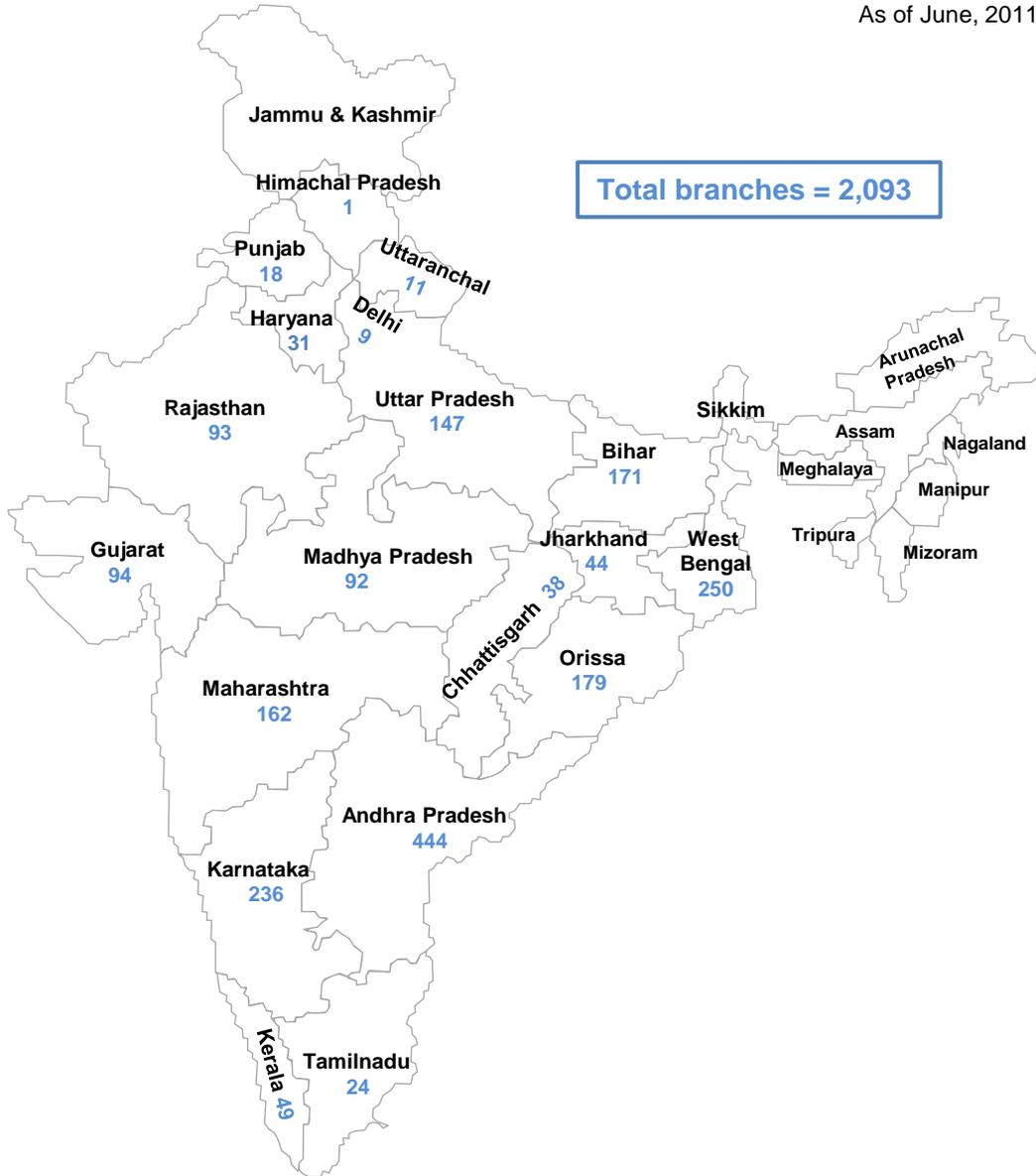
Rating Agency	Instrument	Rating
CARE	Commercial Paper*	CARE A1
CARE	Assigned Pool/ Securitisation	CARE A1+ (SO)
ICRA	Securitisation^	ICRA A1+ (SO)

^ Upgraded from ICRA A1 (SO)

\* CARE has put the commercial paper ratings on Credit Watch

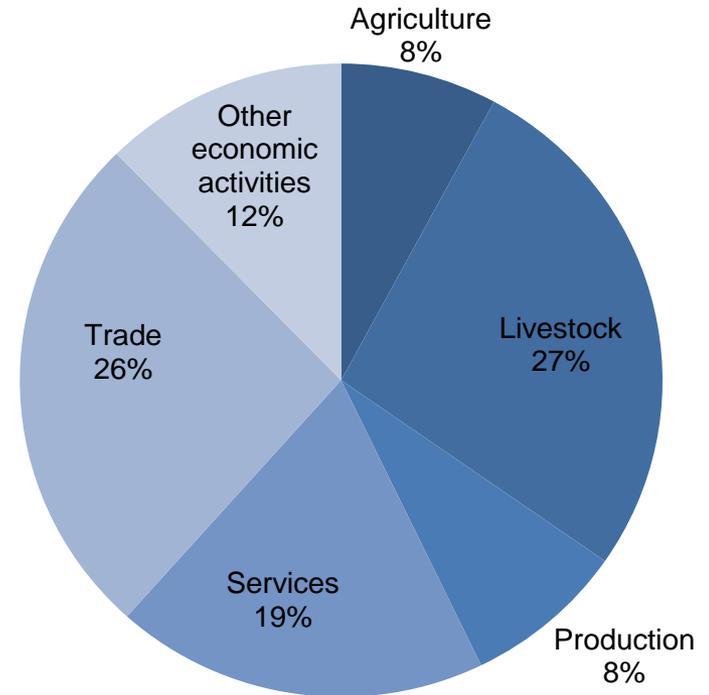
## Pan India Distribution Network

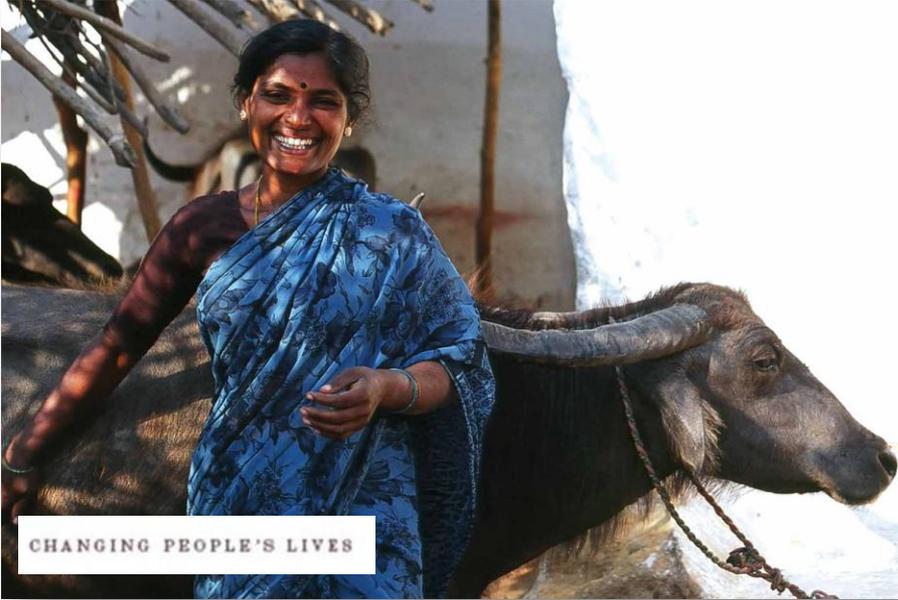
As of June, 2011



## Loan Outstanding by Economic Activity

As of June, 2011





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**Forward Looking Statement**

Certain statements in this document with words or phrases such as “will”, “should”, etc., and similar expressions or variation of these expressions or those concerning our future prospects are forward looking statements. Actual results may differ materially from those suggested by the forward looking statements due to a number of risks or uncertainties associated with the expectations. These risks and uncertainties include, but are not limited to, our ability to successfully implement our strategy and changes in government policies. The company may, from time to time, make additional written and oral forward looking statements, including statements contained in the company’s filings with the stock exchanges and our reports to shareholders. The company does not undertake to update any forward-looking statements that may be made from time to time by or on behalf of the company