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Earnings Call

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Call Participants

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Christopher Ronald Ellinghaus
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Ryan Michael Levine *Citigroup*
Inc. Exchange Research

Presentation

Operator

Hello. My name is Ina, and I will be your conference facilitator.

At this time, I would like to welcome everyone to the MDU Resources Group 2025 First Quarter Earnings Conference Call. [Operator Instructions] The webcast can be accessed at www.mdu.com under the "Investors" heading, select "Events and Presentations," and click "Q1 2025 Earnings Call." After the conclusion of the webcast, a replay will be available at the same location.

I would now like to turn the conference over to Jason Vollmer, Chief Financial Officer of MDU Resources Group. Thank you, Mr. Vollmer, you may begin your conference.

Jason L. Vollmer

Chief Financial Officer

Thank you, operator, and I'd like to welcome everyone to our first quarter 2025 earnings conference call. You can find our earnings release and supplemental materials for this call on our website at www.mdu.com under the Investors tab.

Leading today's discussion along with me is Nicole Kivisto, President and CEO of MDU Resources. During our call, we will make certain forward-looking statements within the meaning of the securities laws -- federal securities laws. For more information about the risks and uncertainties that could cause our actual results to vary from any forward-looking statements, please refer to our most recent SEC filings.

I will provide consolidated financial results later during the call. But first, I'll turn the call over to Nicole for her remarks. Nicole?

Nicole A. Kivisto

President, CEO & Director

Thank you, Jason, and thank you, everyone, for joining us today and for your continued interest in MDU Resources. We are off to a strong start in 2025. This morning, we reported income from continuing operations of \$82.5 million or \$0.40 per share for the first quarter, a 10.4% increase compared to this time last year. Our pipeline and natural gas distribution segments grew earnings by 13.9% and 11.5%, respectively, year-over-year, driving our solid first quarter performance.

I am extremely proud of our employees whose dedication to our core strategy continues to deliver exceptional performance and positions MDU Resources with compelling long-term growth prospects. Our utility experienced 1.4% combined retail customer growth compared to a year ago, which is in line with our 1% to 2% annual projected growth rate. This growth reinforces our need to invest in our utility infrastructure to meet the demands of our growing customer base.

At our electric segment, we signed a purchase agreement to acquire a 49% ownership interest in the Badger Wind Farm during the quarter, which equates to 122.5 megawatts of the project's total 258 megawatts of generation capacity. The purchase is contingent on certain regulatory approvals, and we have filed an advanced determination of prudence with the North Dakota Public Service Commission for this project.

We also anticipate filing general rate cases in Montana and Wyoming at our electric segment yet this year. From a legislative perspective, wildfire prevention and liability limitation bills have passed in 3 of our 4 electric states, Wyoming, North Dakota and Montana. While we remain focused on designing processes to prevent wildfires in our service territory, this legislation provides greater certainty going forward and limits liability.

We continue to see data center opportunities, including the 580 megawatts of data center load we have under signed electric service agreements. Of that total, 180 megawatts is currently online with an

additional 100 megawatts expected to come online late this year and the balance expected to continue through the next few years.

Our current approach is to serve these large customer opportunities with a capital-light business model, which not only benefits our earnings and returns but also provides cost savings to our other retail customers. At our natural gas distribution segment, rate relief was a strong contributor to the quarterly results. In Washington, we received a final order approving our multiyear rate case with year 1 rates effective March 5, 2025, and year 2 rates effective March 1, 2026.

Subsequently, we did file a revision to decrease revenue slightly due to forecasted plant that was not placed in service by December 31, 2024. In Montana, we received approval of interim rates effective February 1 and also filed a settlement agreement on April 3, 2025. In Wyoming, we have reached a settlement in principle in our rate case there and anticipate filing that settlement in the near term.

We also anticipate filing a general rate case in Idaho yet in the second quarter. Moving on to our pipeline segment, we achieved record first quarter earnings, up 13.9% from the first quarter of 2024. This segment is executing well on our core strategy and delivering strong results, driven by strategic expansion and increased demand for transportation and storage services.

We remain committed to investing in future expansion projects to meet increasing customer demand for services including strong interest from industrial customers and power generation projects. In January 2025, we completed a nonbinding open season for our proposed Bakken East pipeline project that could run approximately 375 miles from the Bakken region to Eastern North Dakota. This project would provide much-needed takeaway capacity to meet the forecasted natural gas production growth in the region and provide natural gas transportation service to industrial, power generation and local distribution companies.

Currently, we are engaged in planning and discussions with potential customers and landowners along the proposed route, and we are targeting an in-service date of late 2029 for the first phase of this project and late 2030 for the second phase.

As a reminder, this project is not currently in our 5-year capital forecast and would be incremental should we determine to proceed. Additionally, in April, we announced a binding open season for the Baker storage field enhancement and transportation expansion project. The proposed project could add 72 million cubic feet per day of new firm natural gas storage deliverability and transportation service.

The open season runs through May 20, 2025. Looking at the full year for MDU Resources, we are affirming our earnings per share guidance in the range of \$0.88 to \$0.98 per share. This range reflects continued strong performance across our segments coming off a strong first quarter. As we look ahead, we are focused on our core strategy, which emphasizes customers and communities operational excellence, returns focused and employee-driven.

We believe we are well positioned for growth into the future with anticipated capital investment of \$3.1 billion over the next 5 years, 7% to 8% compound annual utility rate base growth and customer growth expected in the 1% to 2% range annually. We also anticipate a long-term EPS growth rate of 6% to 8% while targeting a 60% to 70% annual dividend payout ratio.

As always, MDU Resources is committed to operating with integrity and with a focus on safety. We remain dedicated to delivering value as a leading energy provider and employer of choice. I will now turn the call back over to Jason for the financial update. Jason?

Jason L. Vollmer
Chief Financial Officer

Thank you, Nicole, and I'm pleased to share the details of our first quarter results.

This morning, we announced first quarter earnings of \$82 million or \$0.40 per diluted share compared to first quarter 2024 earnings of \$100.9 million or \$0.49 per diluted share. First quarter income from continuing operations was \$82.5 million or \$0.40 per share compared to \$74.7 million or \$0.37 per share in the prior year. As we look at our individual businesses, our electric utility reported first quarter earnings

of \$15 million compared to \$17.9 million for the same period in 2024. Retail sales revenue increased due to higher volumes for residential customers due to colder weather and from higher data center volumes.

This increase was more than offset by higher operation and maintenance expense, largely from higher contract services for outage-related costs at 2 electric generating stations, increased software and insurance expenses and higher payroll-related costs. Lower returns on nonqualified benefit plan investments also impacted results.

Our natural gas utility segment reported earnings of \$44.7 million in the first quarter, an 11.5% increase over the first quarter of 2024, which was \$40.1 million. The improvement was largely the result of higher retail sales revenue due to rate relief in Washington, Montana and South Dakota as well as increased volumes due to colder weather. These increases were partially offset by higher operation and maintenance expense and lower investment returns on nonqualified benefit plans.

The pipeline segment posted record first quarter earnings of \$17.2 million compared to \$15.1 million in the first quarter last year. The earnings increase was driven by growth projects placed in service throughout 2024 and customer demand for short-term firm capacity contracts. Higher storage-related revenue further drove the increase.

Partially offsetting the increase was higher operation and maintenance expense, primarily higher payroll-related costs. The business also incurred higher depreciation expense due to the growth projects we previously discussed and lower investment returns on nonqualified benefit plans.

Finally, MDU Resources continues to manage a strong balance sheet and maintain ample access to working capital to finance its operations throughout our peak seasons. While we have no equity needs in 2025 based on our current capital plan, our \$3.1 billion capital investment program over the next 5 years will likely require some access to the equity capital markets.

As such, we plan to reestablish an ATM program in the near term to meet those future needs. Business momentum is strong as we closed out the first quarter of 2025, and we will continue to provide updates regarding our 2025 guidance and outlook as we progress throughout the year. That summarizes the financial highlights for the quarter. We appreciate your interest in and commitment to MDU Resources and ask that we now open the line for questions. Operator?

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Chris Ellinghaus from Siebert Williams Shank.

Christopher Ronald Ellinghaus

Siebert Williams Shank & Co., L.L.C., Research Division

Nicole, the large customer load strategy that you guys are deploying being capital-light. Are the rates that you're -- or the tariffs that you're seeing demanded from the large customers not accretive for new resources and what you're seeing?

Nicole A. Kivisto

President, CEO & Director

Yes. Chris, and thanks for the question. So as we think about our opportunity on the data center front. I would describe what we have right now in terms of 580 megawatts of ESAs. 530 of that is in our Ellendale location. There was really a unique opportunity there to serve that load in a capital-light manner because we had a situation where there was basically constrained area or a pocket within our system where there was generation that was not getting to market. .

So how I would describe that opportunity is it was best for us to think about that on a capital-light manner because, one, it was accretive incrementally right away, as I mentioned in the script, to our earnings and ROE, but also provided benefit because that transmission then cost was shared with this large customer and that benefit then went back to our retail customer base.

So that strategy and that particular pocket was the right strategy for that time. What I will say is we continue to evaluate in conversations with other customers, if it would make sense to look at incremental generation. Of course, that is going to have to make sense for us financially, it will have to make sense for our regulators and also certainly not have impact to our overall retail customer base.

So we continue to look for opportunities to think differently going forward. But currently, today, we like the model that we have.

Christopher Ronald Ellinghaus

Siebert Williams Shank & Co., L.L.C., Research Division

Okay. There's an awful lot of potential disruption to the economy. Have you got any thoughts that certainly, there's some potential disruption to the Bakken, certainly with the oil prices where they are in the type of oil resource at the Bakken is. Have you got any thoughts on how it might affect particularly North Dakota?

Nicole A. Kivisto

President, CEO & Director

Yes, I would say, overall, Chris, the way we look at the Bakken play is this is a long-term play. And I guess, what I would describe as a couple of things in terms of how that relates to MDU Resources in total.

One would be, and we've shared in the past with investors how you look at that gas to oil ratio increasing over time. It certainly is an oil play. It's very important to the state of North Dakota. And so as you can imagine, the state is very interested in the Bakken region in totality. But as it relates specifically to MDU Resources, one of the things that we see is that there is more need for takeaway capacity, and we've talked to investors about that in the past. One of the drivers is because the gas to oil ratio has been increasing over time.

So yes, the pricing environment does ebb and flow, but we do believe long term in what's happening in the Bakken and believe that there are long-term benefits not only producer push benefits from -- but

customer pull. Industrial demand has increased. We've talked about natural gas-fired generation being a driver for growth in the future. All of those fundamentals, we still think hold.

Christopher Ronald Ellinghaus

Siebert Williams Shank & Co., L.L.C., Research Division

Okay. So your thought is the gas side is at least in the long term, more of an offset to whatever kind of pressures there might be on oil in the near term?

Nicole A. Kivisto

President, CEO & Director

Yes. For the most part, I would say you summarized that right. I mean, yes, go ahead, Jason, are you going to add to that?

Jason L. Vollmer

Chief Financial Officer

Yes. I was going to say, certainly, even if the projections that we see from whether it's North Dakota Pipeline Authority or other places would show that even if oil stays relatively flat. So again, not a lot of drilling, but you're going to see the gas to oil ratio continue to climb where gas continues to be a benefit here. Again, gas is not the target in the Bakken oil is the target. So that does have some impact on the capital dollars flowing into drilling opportunities.

But gas is an ever-increasing commodity being produced in the Bakken, and we think that's going to provide long-term benefits, both for our pipeline business and our utility customers with a low-cost source of natural gas.

Christopher Ronald Ellinghaus

Siebert Williams Shank & Co., L.L.C., Research Division

Sure. There's also some concern about sort of housing starts and I guess that's really more of a residential type of concern. .

So just thinking about your service areas and what might be impacted. I was kind of curious your thoughts on this. One of your higher growth areas is Boise. Just given the type of economic development in Boise, would you be thinking that, that area is somewhat insulated from economic sensitivity given the types of large customer growth that is taking place there and therefore, the residential growth that you benefit from might be more or less economically sensitive?

Nicole A. Kivisto

President, CEO & Director

Yes, I would say that's fair. I mean, Chris, the way I would look at this is over time, as we think about the customer growth rate, whether -- and again, I would say we look at this from an overall perspective, we have been riding in that range of 1% to 2%.

Within that 1% to 2%, that has carried through periods of slowdown and acceleration. So economic conditions obviously do matter, but I would say fundamentally, we have been able to kind of stay within that range.

Now as it relates to Idaho specific, you are correct. We have as we thought about that market, we have certainly seen that as being one of the faster-growing areas within our service territory. And again, that has ebbed and flowed a little bit, but continues to rise to the top in terms of one of our higher customer addition areas.

That all being said, as you know, rate base is also certainly a consideration as we think about earnings potential within the utility. And so I would take you back to as we think about our ability to grow rate base within our utility, we're still very focused on achieving that 7% to 8% rate base growth, which ultimately drives earnings growth as we think about the forward look.

Christopher Ronald Ellinghaus*Siebert Williams Shank & Co., L.L.C., Research Division*

Okay. That's helpful. Jason, can I ask you sort of an accounting question here. In your restated number versus last year's reported. Obviously, you're pulling out construction services as discontinued.

But what else goes in there? I mean, we can do the math of pulling out what you reported for Construction Services last year, but it's incremental to that. What's the incremental part versus what you were on a reported basis last year?

Jason L. Vollmer*Chief Financial Officer*

Yes. So if we look back to last year, there's a couple of things when you look at the restated numbers. So it would be accounting for, as you mentioned, Everus being pulled out as a discontinued operation, we would also have probably some costs still continuing as we went through the process of separating Knife River or the year before that some of that would flow through as continuing -- or discontinued operations in the prior year. Even going back as far as when we separated the previous businesses before like Fidelity, if you remember that part of the business in the past, there are a few things that end up in discontinued operations that flow through those numbers.

The bulk of what's there is going to be Everus related. I think if you look at just the regulated energy delivery earnings we posted last year, and divide that out by our number of shares that would have gotten you in that probably \$0.35, \$0.36 range per share. Our number that we're showing now is \$0.37 for the prior year. So there's not a lot of impacts in there outside of the Everus transaction to be the biggest piece of it.

Christopher Ronald Ellinghaus*Siebert Williams Shank & Co., L.L.C., Research Division*

Is any portion of that your assessment of the dis-synergies of the separation?

Jason L. Vollmer*Chief Financial Officer*

No. The dis-synergies actually -- those are costs that would end up flowing through O&M on the remaining businesses here. So that actually is in continuing operations and is reflected in the \$0.40 that we showed for the quarter here, this 2025.

Operator

And your next question comes from the line of Julien Dumoulin-Smith from Jefferies.

Brian J. Russo*Jefferies*

It's Brian Russo on for Julian. Just if we could just focus on the electric segment first. The earnings were down year-over-year, yet you did report retail electric volumes up 25%. I was just wondering if maybe we could unpack kind of the deposited drivers like sales versus some of the negative drivers like the outages and maybe quantify what the lower returns on the nonqualified plans look like? It just seemed like retail volumes were so strong that I'm surprised it was down as much as it was year-over-year.

Jason L. Vollmer*Chief Financial Officer*

Yes. Thanks, Brian. I can jump in and field some of those, and we'll quantify some as we can along the way here, but for the most part, if you look at the electric on a year-over-year basis, if you think back to our previous few years, we've been through a lot of rate case activity in the electric side of the business. And we really didn't have much of that, that would have been incremental in Q1 of this year, right?

So that was -- those rates were primarily put in effect in prior years. So we did not have a significant amount of what I'll call, regulatory rate relief in Q1 versus prior year on that one. What we did have is,

of course, some higher O&M, which you would expect as we've seen payroll increases and general cost increases along the way.

Some of that O&M was related to the generating station outages, as you mentioned as well, and I can cover off on that in a minute. I think generally speaking, if you look at the increase in volume, you may remember last year in the first part of the year, our data center customer, the 180 megawatts that's currently in service was not online at that point in time. They had some outages on their end. So they were not taking as much power. So a lot of that retail electric volume increase was really that data center now being online for the full first quarter where it had not been for the first quarter and actually a little bit in the second quarter last year as well.

As far as the outages that we saw, we did have a planned outage in our estimates this year as we thought about setting guidance, that was for our Coyote station. So that was an outage that we knew was going to have sort of impact for us here as we went through the year and really probably largely gets completed by the end of Q2. The other one was an unplanned outage actually at co-owned facilities that we have with Wygen and that was again, unplanned outage so we had a little bit of an impact from there.

So all of those things, though, I think as we set our guidance earlier in the year and as we've reaffirmed our guidance range here today, those are all included in those numbers. So I didn't expect to see a big impact. The other item that you had asked all was the nonqualified benefit plan. So again, if remember the equity markets in the first part of last year had an equity and debt markets, I guess, probably had a pretty strong return profile and there are some assets set aside here to cover liabilities for these nonqualified plans that we do end up seeing some income statement impact too.

What we really saw was just a different performance in the investments in the first quarter here than we saw in the first quarter of last year. So not a significant impact. If you would see it as a driver in each of the segments. It was quantify it probably in total, somewhere in the neighborhood of \$0.01 per share for the entire organization, not just for electric but across all of our segments.

But overall, I guess, not significantly different than what we would have seen previously. So hopefully, that answers your question.

Brian J. Russo

Jefferies

Yes, that's helpful. And then just maybe to follow on, now that you have the 180 megawatts from applied digital online annual for the year, of course. Is North Dakota in the sharing band this year versus not last year, while that ESA volumes ramped up?

Jason L. Vollmer

Chief Financial Officer

Yes. So our ESA does have some band around sharing, and I would hesitate to give you an answer on that right now because it really will depend on how our performance is throughout the year, not just on a quarter-by-quarter basis. So we do an annual filing on that with the state as we look through that piece.

So depending on performance of the electric throughout the year, we can probably update you with that later in the year. But we haven't been in a situation in prior years where we have had to share some with the state in North Dakota, which again is a good measure for those that may not be familiar if we get above a 10% ROE, we end up having to share some of that back with our customers and we get to keep a portion of it as well.

So that's a good position to be in, and we have been in that in the past, whether we're going to be in there in 2025 are not yet to be determined.

Brian J. Russo

Jefferies

Okay. Great. And then on the Bakken -- I'm sorry, the pipeline segment, the Bakken East project. Are you more confident in that in successful development following the conclusion of the open season? And then what are the next milestones assuming a late 2029 and 2030 Phase I, Phase II start?

Nicole A. Kivisto*President, CEO & Director*

Yes. I would characterize it as conversations continue. So you heard us on last quarter call, talk about that we continue conversations with customers, and that is certainly what we are doing. So those conversations will really inform us in terms of overall route timing, et cetera.

So I would characterize it probably as we did really last quarter. We're encouraged by the feedback that we're getting from customers, but on the same token, we want to be mindful of making sure that we continue to work with them on overall route design, et cetera.

So that's how I would summarize it. I think we -- what I would say, though, is we like our strategic position in terms of our pipeline, our access to storage, our access to other pipelines as well. So more to follow as we know more and as I mentioned previously, this is not currently in our 5-year capital forecast and to the extent that we get new information and get more clarity here, we will certainly be providing that to investors as we move forward.

Operator

[Operator Instructions] Your next question comes from the line of Ryan Levine from Citi.

Ryan Michael Levine*Citigroup Inc. Exchange Research*

A couple of questions. On Bakken East, recognizing production outlooks continue to evolve and you did the open season in January. Would there be a more comprehensive or an updated open season anticipated? Or do you think these are spoke one-off conversations are enough to inform your commercial project?

Jason L. Vollmer*Chief Financial Officer*

Yes, Ryan, I can jump in here a little bit, and Nicole can certainly add it along the way, too. I think this is the next step, right? So we are really working with the individuals that respond the company has responded to our original open season to really understand what's the timing, what's the need, what's the amount that they may be looking at for deliverability, then it would proceed to more of a formal agreement after that.

Whether we actually go forward with binding open season or whether we'd actually move forward with impressive agreements in some cases with various parties. Those are things that would happen down the road. So right now, I think this is really setting the stage, but eventually, we'll want to get to a point where we have a route. We have a design. We have a size. We have kind of a final cost estimate that we'd look at, which gets us to being able to really enter into firm agreements here and then being able to subsequently file for FERC approval at some point in the future as well.

Ryan Michael Levine*Citigroup Inc. Exchange Research*

And what role does the recent tariffs play in terms of the commercial attractiveness of Bakken East? How material are the current tariff proposals or current tariffs that are in place to the cost structure for that project?

Jason L. Vollmer*Chief Financial Officer*

Yes. If we look at the current tariffs today, and again, it's early in the trade discussions process right now and certainly tariffs. I mean I think there was announcements today, I have a chance to catch up yet, but as far as potential deals getting done in certain areas. But it's early in that process.

I would say this, when you look at a large project like this, there's a lot of components to it, right? There is securing right away. There is engineering and design, I think some of those things we can do in-house some will have to hire third parties. The materials piece of that is certainly an important part of that. But

even with some tariffs on a piece of the materials pipe as an example or whatever the measurements would be to go along with that, that will have some impact, but it's probably not -- it's probably something we can plan for and design around as we look at that and be able to get final numbers in place to put in front of someone for an approval. So I don't see that as something that would derail the projects as we look at it today.

Ryan Michael Levine

Citigroup Inc. Exchange Research

Okay. And then unrelated in terms of wildfire legislation in some of the states that you operate, how do you see that impacting your potential legislation impacting future wildfire mitigation plans or any type of derisking effort that the company may be pursuing?

Nicole A. Kivisto

President, CEO & Director

Yes. Good question, Ryan. So essentially, as I mentioned on the call, we did get legislation passed in 3 of our states I would say, as it relates to our mitigation plans, the company certainly was already proactive and had plans in place to do what we could to prevent on an overall basis.

So what I see in terms of benefits of this legislation really is going to be that we can formalize those plans more officially with folks. And obviously, that formalization of the plan is dependent on the state. So state by state, I can talk to you about that. There's a little bit of variations between the states.

But once we've done that, then that kind of proves then to that regulatory body that we have done our part. And then ultimately, the benefit gets to limiting liability if something were indeed to happen. But obviously, our first most -- biggest priority, I guess, I should say, would be prevention in the first place and the company is active in doing what we can there.

Ryan Michael Levine

Citigroup Inc. Exchange Research

Great. Then just 2 quick clarifying questions. I think you had mentioned the potential ATM filing. Is there a size anticipated? And then in terms of your 6% to 8% EPS growth, but what's your starting point that you're growing off of that? Is that actual at ['24]? Or could you just clarify the starting point for the long-term growth rate?

Jason L. Vollmer

Chief Financial Officer

Yes. No, it's a great question. Well, I'll start with the ATM question first. So we have not determined the size on that yet. Again, we are working through that process. We're looking forward to future needs. Again, right now, our current capital plan would show we do not have any equities in 2025.

We would see some potentially starting in 2026 as we've talked about before. So as we look through, typically, an ATM program, probably got about a 3-year time horizon to it. So we try to size it to an appropriate amount to maybe offset our needs during that time period, but that's yet to determine. We'll follow up with public filings on that later this year.

And the second question on the 6% to 8% long-term growth rate. Maybe help me with the last part of that question again, Ryan.

Ryan Michael Levine

Citigroup Inc. Exchange Research

Just to clarify the starting point, was that off of the original '24 estimate or the actual results.

Jason L. Vollmer

Chief Financial Officer

Yes. So I think what we have said when we came out with that guidance range in February of this year was we were basing it off of our 2025, where we expect to be only for the reason that if you look back historically, given the spin-offs and the transaction costs that we had as part of our last few years, its kind of made the historical look back kind of noisy on that front from a public standpoint.

So I would tell you that it's probably the same range if you use the adjusted 2024 number. It's going to you can use either 1 you know in the same spot. So I think from that perspective, we would -- I'd be comfortable saying it's based on that adjusted 2024 number, and we're on the 2025 range we put out this year.

Operator

At this time, there are no further questions. I would now like to turn the conference back over to management for closing remarks.

Nicole A. Kivisto

President, CEO & Director

All right. Thank you again for joining us today. We appreciate your interest in and support of MDU Resources and look forward to connecting with you throughout the year.

And with that, I'll turn the call back over to you, operator.

Operator

Thank you. This concludes today's MDU Resources Group Conference Call. Thank you for your participation. You may now disconnect.

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