

09-Aug-2022

BARK, Inc. (BARK)

Q1 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Audra, and I will be your conference operator today. At this time, I would like to welcome everyone to the BARK First Quarter Fiscal 2023 Earnings Conference Call. Today's conference is being recorded. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

At this time, I'd like to turn the conference over to Mike Mougias, Vice President of Investor Relations.

Michael Mougias

Vice President-Investor Relations, BARK, Inc.

Good afternoon, everyone, and welcome to BARK's first quarter fiscal year 2023 earnings call. Joining me today are Matt Meeker, Co-Founder and CEO; and Howard Yeaton, Interim CFO. Today's conference call is being webcast in its entirety on our website, and a replay of the webcast will be made available shortly after the call. Additionally, a press release covering the company's financial results was issued this afternoon and can be found on our investor relations website.

Before we begin, I would like to remind you of the following information regarding forward-looking statements. The statements made on today's call are based on management's current expectations and are subject to risks and uncertainties that could cause actual future results and outcomes to differ. Please refer to our SEC filings for more information on some of the factors that could affect our future results and outcomes. Also during today's call, we will discuss certain non-GAAP financial measures. Reconciliation to our non-GAAP financial measures is also contained in this afternoon's press release.

With that, let me now turn the call over to Matt.

Matt M. Meeker

Co-Founder, Executive Chairman & Chief Executive Officer, BARK, Inc.

Thanks, Mike. And good afternoon, everyone. On our last call, we laid out our strategy for fiscal 2023. Our overarching goal was and continues to be to drive towards profitability by transforming our customer base to focus on higher value customers, that is customers who spend more with us and make purchases across multiple product categories. One measurement for our success here is simple, our new customers contributing more revenue and margin. That's a key driver to accelerating our path to profitability and long term to faster revenue growth. And while we are still early in the fiscal year, I'm pleased to report that we have made significant progress executing this strategy in our first quarter, and I'm excited to share those results with you today.

I'd like to begin with the high level summary results from our most recent quarter, followed by highlights and more detail about each component. Total revenue came in at \$131.2 million, \$1.2 million above our guidance. Total gross profit for the quarter was \$75.8 million, resulting in a total gross margin of 58%. The gross margin of our direct-to-consumer business came in at a healthy 60%, largely in line with the same quarter last year. And finally, our adjusted EBITDA loss for the quarter came in at \$13 million, which is \$5 million better than our guidance.

I'll talk about the factors that contributed to this better than expected outcome in a moment. Overall, we are happy with our first quarter results. And while we remain cautiously optimistic for the remainder of the year, given the macro backdrop, we are raising our annual guidance to reflect our first quarter performance. Now, let's talk about the drivers of the quarter.

Beginning with revenue in our direct-to-consumer business, the majority of our recent revenue growth was driven by a significant increase in average order value. This is how we planned it and the results exceeded our expectations. Our average order value for the quarter came in at \$31.07, an increase of nearly \$2 compared to the same quarter last year and nearly \$1 compared to the fourth quarter of fiscal 2022. This is a significant milestone as it underscores the early success of the strategy I mentioned earlier.

We are transforming our customer base by converting BarkBox customers to BARK customers, that is customers that sign up for multiple products and make purchases across our newer product categories. And while we are still early in the fiscal year, the strategy is working. One strong indication of that success is that we added 259,000 new subscriptions in the quarter, and the average revenue of this specific cohort in their first month increased by over 10% when compared to the same cohort in the first quarter of fiscal 2022. That is an encouraging data point and it captures the essence of what we are looking to achieve this year. And as we progress through fiscal 2023 and continue to acquire higher value customers, the weighting of our newer customers will become increasingly impactful to the overall unit economics of the business.

Another driver of our recent direct-to-consumer revenue growth was cross-selling, which drove \$10 million of revenue, a 42% increase compared to the same quarter last year. Our results and capabilities in this area continue to expand as we work on our machine-learning engine, gather more first-party data on millions of dogs and build deeper relationships with our customers. This is a powerful lever to accelerate growth in our newer product categories without spending heavily on new customer acquisition in these categories.

And to that point, what makes our recent average order value growth and cross-selling revenue even better is that we acquired these higher value customers at a highly efficient cost of acquisition, coming in at \$50.80 for the quarter. This CAC is in line with our historical results, yet the customers we acquired last quarter spending much more and contributing more margin compared to a year ago. Again, this is a significant improvement and something that we expect to continue to benefit from throughout fiscal 2023 and beyond.

Turning to our commerce business, total revenue was nearly \$13 million for the quarter, representing just short of 10% of total revenue. Remember, our commerce business is lumpy in nature. However, we continue to expect commerce revenue to represent between 10% and 15% of total revenue for the year.

In the quarter, we shipped two new partners, Walgreens and Tractor Supply Company. Today, we have commitments in over 40,000 retail doors across the US. These partnerships extend our customer reach and raise awareness for the BARK brand in a significant way, while enabling the customer to buy in the way that suits them the best.

Continuing through the income statement, total gross profit for the quarter was \$75.8 million, resulting in a gross margin of 58%. The gross margin of our direct-to-consumer business came in at a healthy 60%, again, largely in line with the same quarter last year and stronger than the previous two quarters. If you recall, our gross margin in fiscal 2022 was 4 points lower than fiscal 2021. Bringing our gross margins back to the fiscal year 2021 levels is one key building block to profitability, and we are very pleased with our results in the first quarter of this fiscal year 2023.

And as I mentioned earlier, our adjusted EBITDA loss for the quarter came in at \$13 million, which is \$5 million better than our guidance. There were several factors that contributed to this better than expected outcome, some of which we've already discussed, including growing average order value driven by more customers purchasing multiple products across our newer categories and healthy gross margins that are returning to fiscal year 2021 levels. Also, as we discussed on our call in May, we made several process improvements for managing inventory, which we believe will result in lower charges for shrink in fiscal year 2023.

Now let's talk about our product expansions into the food and dental. I'm happy to announce that last week we introduced a new product format for BARK Food, redesigned the packaging and launched a new website, all based on the customer feedback that we've collected over the past 18 months. You can see the new website at food.bark.co. With this launch, we've introduced breed-based marketing initially targeted at Pit Bull, Lab and Chihuahua customers. The engagement, conversion and feedback we have received since introducing this strategy has been very encouraging. We plan to learn more about the breed-based approach by serving these three breeds, expanding our food assortment, and then expanding to serve more breeds as the year goes on.

We're approaching food with the same playbook that made BarkBox and Super Chewer so successful, by serving each customer as an individual. For example, we have a lot of valuable first-party data on Labs. We know they tend to eat too quickly and that they face hip and joint problems. With this in mind, customers can add a slow feeder bowl and they can add joint support supplements with their purchase.

We are also leveraging our Happy Team, which I believe is the best customer support team in the pet industry, in unique ways to help sell and improve the customer experience that new food customers have with us. Food customers are now being served by a Happy Team member with the same breed of dog as theirs. So, for example, when a customer signs up for food for Labs, a Lab parent from our happy team will be assigned to support that customer. This creates an immediate connection with the customer, improves customer satisfaction scores and is expected to improve customer retention long term. This is serving each customer as an individual in a way no other company can do.

We've also modified the product format and delivery options; for example, removing the 4 and 15 pound bags and no longer selling daily portion meals. This new format improves margins and is preferred by our customers. The new format can be purchased on a discounted subscription basis or individually at full price. Customers can also purchase add-on products such as slow feeder bowls for Labs who eat too fast, toppers for dogs who like extra

flavor and supplements tailored to each breed's unique needs. These add-on products improve the margin of each shipment and serve the individual dog even better.

We have also introduced inflation-proof pricing to our food customers. If you subscribe to BARK Food, we will guarantee the price of your dog's food for life. Customers are feeling the pain of inflation, and it's gotten worse in pet food over the past year. We aim to give customers assurance and peace of mind that when they commit to BARK, we commit right back to them with locked-in pricing that recognizes their loyalty. We believe this incentive will not only raise awareness, but also creates food customers for life.

This makes sense for us as a direct-to-consumer business with strong margins, a large customer base and robust cross-selling opportunities that allow us to offer more value to our customers, as compared to traditional retail-based food companies. We also believe we'll benefit with stronger retention and lower customer acquisition costs due to this offer. And we believe it's a relief to customers who are struggling with inflation today.

Collectively, these changes are improving conversion, accelerating revenue growth and improving customer satisfaction scores, which we believe will improve retention, accelerate AOV and, most importantly, create BARK customers for life.

As we briefly discussed on our last call, our Food business is following a similar trajectory to our BARK Bright, which launched roughly one year before our Food business. In fiscal year 2022, orders for Bright increased 121% to \$236,000, representing \$6 million of revenue. Last quarter, direct-to-consumer revenues from Bright increased 169% to \$2.4 million, with a 55.4% gross margin for the quarter. We are thrilled with these results. The dental category represents a \$10 billion market opportunity, and even with this fast rate of growth, we have a huge opportunity for growth for years to come.

Finally, let's discuss profitability. Since stepping back into the CEO role, we've been making material improvements across our business. We're focused on raising the average order value of every customer, tightening up our margins and overall unit economics, managing to a consistent cost of customer acquisition and streamlining our team activities to limit spending. As I said previously, if we return to the margin profile we had in fiscal year 2021, we will make big leaps towards profitability. This takes time, but the entire business is becoming more efficient and we are on a good path to profitability.

And while we're just one quarter into the fiscal year, we are very pleased with our progress, we're adding customers efficiently, AOV is growing and margins are improving. This all led to an adjusted EBITDA loss of \$13 million, which is \$5 million ahead of our guidance for the quarter. As I said, we are cautiously optimistic about the remainder of the year, factoring in macro uncertainty into our guidance.

With that said, we are raising our guidance and now expect an adjusted EBITDA loss for the full year of \$33 million as compared to our previous guidance of \$36 million. For the fiscal second quarter, we expect total revenue of \$135 million and adjusted EBITDA loss of \$8 million, a meaningful improvement compared to our fiscal first quarter.

The last item I'd like to highlight is inventory. Total inventory increased 3% to \$158 million compared to the fiscal fourth quarter of 2022. We continue to hedge against potential supply chain disruptions. However, we do not believe that inventory will be a material drag on working capital this year, and we expect our inventory to come down from current levels as we leverage the products we have on hand over the next several quarters. It takes time for us to turn this as we are typically ordering products six months in advance. So, we'll take a couple quarters to see our progress reflected on our balance sheet.

But one great thing about our subscription model is that the customer is unaware of the products they will receive in their box each month. In a traditional retailer e-commerce business, the customer selects the exact products they want send to them. In our model, it's a surprise each month. And we can leverage the inventory we have on hand at our discretion.

Overall, we were very pleased with our execution last quarter and believe that the business will be much more efficient this year and will continue to improve beyond fiscal 2023. We ended the quarter with \$177 million of cash on hand, which we believe is more than enough to get us to profitability.

To quickly summarize, we hit the ground running in fiscal 2023 and made solid progress across all of our key priorities. We are acquiring higher value subscribers, growing AOV at a healthy rate and more successfully introducing new customers to our offerings in food and dental. At the same time, we've made improvements throughout our margin and cost structure, which have already begun to accelerate our path toward profitability.

We outperformed our guidance on the top and bottom lines, and as a result, we're cautiously optimistic for the next quarter and the remainder of the year. Therefore, look for us to deliver \$135 million in revenue in the second quarter with an \$8 million adjusted EBITDA loss and a full year adjusted EBITDA loss of \$33 million now. We look forward to updating you on our progress throughout the year.

With that, I'll turn the call over to Howard.

Howard R. Yeaton

Interim Chief Financial Officer, BARK, Inc.

Thanks, Matt. And good afternoon, everyone. We had a productive first quarter. Revenue and adjusted EBITDA came in ahead of our guidance, driven by strong average order value and healthy margins. There's still blocking and tackling to get us to profitability, including working through our inventory, improving margins and gaining operating leverage on our G&A line. With that said, we have made solid progress and we believe that we are in a strong position to execute the priorities that we've laid out for the year.

Let me take you through our fiscal first quarter results in more detail. First quarter revenue was \$131.2 million, up roughly 12% year-over-year. Looking at our top line in more detail, direct-to-consumer revenue came in at \$118.4 million, up 12% compared to the same period last year. Growth in this segment was largely driven by a 6% increase in subscription shipments and a \$1.86 increase in our average order value. As Matt discussed, we were very pleased with our ability to acquire higher value customers last quarter and we expect AOV to continue to be a key driver of the business in the quarters ahead.

Commerce revenue was \$12.8 million, up 4% year-over-year. As we've discussed on previous calls, our commerce business is lumpy in nature and revenue contribution in any one quarter can vary based upon the timing of shipments with our retail partners. Nonetheless, we continue to expect our commerce business to represent a similar percent of revenue in fiscal 2023 as compared to fiscal 2022.

Moving on, total gross profit was \$75.8 million, resulting in a gross margin of 58%. Gross profit for our direct-to-consumer segment was \$71.2 million, resulting in a gross margin of 60%; while gross profit in our commerce business came in at \$4.6 million, resulting in a gross margin of 36%.

Over the past several months, we have been laser focused on improving our margin profile. We've optimized our inventory controls to reduce shrink and we've also renegotiated contracts with several of our manufacturing and

shipping partners. While there is still work to do, our growing average order value, coupled with our improving margin profile, sets us on a solid path toward profitability.

Turning to operating expenses, total G&A was \$79.6 million in the first quarter, an increase of roughly \$10 million compared to the same period last year and roughly \$5 million less than our fiscal fourth quarter of 2022. The year-over-year increase was primarily driven by a 6% increase in subscription shipments in the most recent quarter and increased head count.

Looking ahead, we do not have any plans to materially increase head count from current levels. We expect the majority of G&A growth this year to be driven by subscription shipment volume, and thus we expect our operating margins to improve in fiscal 2023 as compared to fiscal 2022.

Moving on, we added 259,000 new subscriptions last quarter, bringing our total active subscriptions to over 2.2 million. Total advertising and marketing expense in the first quarter was \$16.4 million, which is \$815,000 below the same period in fiscal 2022. Our resulting customer acquisition cost last quarter came in at \$50.80, largely in line with where we have been historically, yet the customers we acquired last quarter are spending more and purchasing multiple products across our newer categories.

Other income net was \$6 million in the first quarter, which was largely driven by the change in the fair value of our outstanding warrants. This is a non-cash item. Net loss was \$15.4 million in the first quarter compared to a net loss of \$24.8 million in the same period last year. On an adjusted basis, which excludes stock-based compensation, the impact of our outstanding warrants and other onetime items, net loss was \$16.4 million in the first quarter compared to an adjusted net loss of \$10 million in fiscal 2022. And lastly, our adjusted EBITDA loss was \$13 million in the first quarter as compared to a loss of \$7.6 million in the same period last year.

Turning to the balance sheet, we ended the quarter with total inventory of \$158 million and we expect to see a reduction in our inventory levels this fiscal year. And lastly, we ended the year with roughly \$177 million of cash on the balance sheet.

In summary, fiscal 2023 is shaping up to be a transformative year for us. We are acquiring higher value customers, growing average order value at a healthy pace and introducing more customers to our offerings in food and dental. We also expect our margin profile to improve throughout the year as we gain operating leverage on our cost structure. Moreover, our cash position is healthy and is expected to improve this year as inventory levels come down. It was a strong start to the fiscal year and we look forward to speaking with you again soon.

With that, I will turn the call over to the operator for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. And now we will move to our Q&A session and we will go first to Maria Ripps at Canaccord.

Maria Ripps

Analyst, Canaccord Genuity LLC

Q

Good afternoon. Thanks so much for taking my questions. And congrats on strong results here. Can you maybe share a little bit more color on your progress with one of your strategic initiatives become in BARK. So, you talked about very healthy AOV trends, especially for new subscribers. I guess, how far along are you integrating your five businesses into one platform and has this been introduced to all of your existing sort of customers at this point? And do you have any insights in terms of how your existing subscribers are engaging with this sort of more unified offering?

Matt M. Meeker

Co-Founder, Executive Chairman & Chief Executive Officer, BARK, Inc.

A

Hi, Maria. Sure. Our progress – the biggest thing that you'll see and is starting to reflect itself in the results this quarter is where we've added the cross-selling of both BARK Bright and our food toppers. So, we're cross-selling those to our toy and treat customers during their onboarding. That launched in the middle of the quarter in May. And so, we have two months of adding those recurring relationships to those customers that's built into these results. So, that definitely helped push up that average order value. We saw really good adoption there. Under the hood here, behind the curtain, there's a lot of work on the foundation and the platform to bring all the sites together.

I think the other material thing you saw that didn't happen within this quarter itself, but is now visible in the world is the launch of the Food site. And so, with that, you see, I'd say, a more modern future look for BARK. And that's another building block towards getting to that integrated BARK site. But we're going to continue working it at this probably through the rest of the fiscal year. And there's quite a bit of work to do, but we're already benefiting from just exposing those products more to some of our newer customers and being more aggressive about the cross-selling via our ATB program.

Maria Ripps

Analyst, Canaccord Genuity LLC

Q

Got it. That's very helpful, Matt. And then, maybe secondly, you mentioned introducing more customers to your food offering, can you share roughly what portion of your customer base has engaged with your Eats product sort of at this point? And maybe refresh us on how broad geographically Eats has been launched so far?

Matt M. Meeker

Co-Founder, Executive Chairman & Chief Executive Officer, BARK, Inc.

A

So, as of now, Food is available nationwide, but today it's available to the three breeds of dogs that we've launched with, which are Labs, Pit Bulls and Chihuahua. We started with those dogs because they're all fairly different from each other. And so, we wanted a good basis for testing and understanding if there are different behaviors or customer interactions due to the breed of the dog. But so far, we've rolled out to that population in a somewhat limited way, still testing our emails. There will be more broad-based announcements, some PR and then more internal marketing to our existing customer bases.

As we learn more and time goes on and we optimize the sales flow. But one week into it, we're pretty encouraged by what we're seeing, the conversion rates, when people are coming specifically to one of those breed-based pages. So, I've got a Chihuahua and I'm interacting with the Chihuahuas section of the site. The conversion rates that we're seeing are pretty encouraging. And so, that's giving us the confidence to ramp up the exposure and awareness.

Maria Ripps

Analyst, Canaccord Genuity LLC

Got it. That's very helpful. Thanks so much for the color.

Matt M. Meeker

Co-Founder, Executive Chairman & Chief Executive Officer, BARK, Inc.

Thanks, Maria.

Operator: We'll move next to Corey Grady at Jefferies.

Corey Grady

Analyst, Jefferies LLC

Hi. Thanks for taking my question. So, I wanted to follow up on Food. So, you launched for the three breeds at this point, but maybe can just say more about the customer response and uptake you're seeing? And then, how should we think about you guys rolling out formulations for new breeds through the year and then just growth as you roll out the new offerings? Thanks.

Matt M. Meeker

Co-Founder, Executive Chairman & Chief Executive Officer, BARK, Inc.

Sure. Like I said, it's pretty early. It's a weekend. But the main metric that I'm interested in is that conversion rate, the number of people that visit those individual breed pages, how well are they converting to a sale, is the proposition resonating with them? And like I said to Maria, so far so good. It's really encouraging. It's a big step-up from where we were prior to August 1. And so, now that becomes a challenge of getting awareness and getting traffic flowing through those pages. And we have plans in place to do that. We're going to see if that scales up and the conversion rates [ph] fold (00:28:54) really nicely there.

But all along, we've been creating more formulas of food in order to serve more breeds. We intend to take steps to go anywhere from 3 to 10 breeds over the next few months. And if we get very, very ambitious, you could see us get to as many as 12 to 15 breeds by the end of the fiscal year. So, we're taking it step by step, just making sure that we're putting the best product in front of the customer and being very efficient about our marketing activities and our dollars that we're placing there.

Corey Grady

Analyst, Jefferies LLC

That's really helpful. Thank you. I just wanted to ask about the performance of the business overall. So, I mean, the results were really strong. You guys are in a relatively discretionary category, at least your [ph] core toys (00:29:54) business. But can you talk about how the quarter played out relative to your expectations across both the DTC and commerce segments? And then, if you can characterize any change in customer behavior during the

quarter, that would be great, and any feedback from retailers about how they're thinking about the [indiscernible] (00:30:11)?

Matt M. Meeker

Co-Founder, Executive Chairman & Chief Executive Officer, BARK, Inc.

A

Sure. It played out in a lot of ways better than expected. Like we said, what we're really focused on is that creating stronger relationships with higher value customers. And the reflection of that being, are they entering into multiple recurring relationships with us. And we've seen more of that than we expected. And then, that gets reflected in the average order value. So, watching that move its way up and at such a good pace year-over-year or even quarter-over-quarter, that's really encouraging. We saw that on a cohort basis and on an overall basis. So, that was really encouraging.

We also were paying very, very close attention to our overall conversion rates and our retention rates. And because as we said, in our May call, we talked about being conservative, cautious – or optimistic, but very cautiously optimistic here, as the company has never lived through a recessionary period, if that's what we're in, or whatever we want to call it, but what seems clear is that the customer is facing inflationary pressure and mostly it's at the gas pump. And so, we expect that there are some customers out there when they put \$30 more gas into their car, it's not \$30 that's coming over to BARK.

So, we've been very, very tuned into with our – as our Happy Team is engaging with customers, as we watch our data. And we've definitely seen pressure on the customer, but have also seen that wane as those gas prices have come down over the past six, seven weeks. So, we remain cautiously optimistic. We did adjust the guidance in a positive way, but still cautiously optimistic about it. And we're paying very close attention to it and certainly managing the retention and conversion sides of the business carefully.

Corey Grady

Analyst, Jefferies LLC

Q

That's really helpful. Thank you.

Matt M. Meeker

Co-Founder, Executive Chairman & Chief Executive Officer, BARK, Inc.

A

Thank you, Corey.

Operator: And that does conclude today's question-and-answer session at this time and that also concludes the conference. We would like to thank you for your participation. And you may now disconnect.

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