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Market Intelligence

BARK, Inc. NYSE:BARK

Earnings Call

Wednesday, August 7, 2024 9:30 PM GMT

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Call Participants

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Presentation

Operator

Good afternoon. My name is Emma, and I will be your conference operator today. At this time, I would like to welcome everyone to BARK's First Quarter Fiscal 2025 Earnings Call. [Operator Instructions]

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

Michael K. Mougias

Vice President of Investor Relations

Good afternoon, everyone, and welcome to BARK's First Quarter Fiscal Year 2025 Earnings Call. Joining me today are Matt Meeker, Co-Founder and Chief Executive Officer; and Zahir Ibrahim, Chief Financial Officer. 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 I pass it over to Matt, I want 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 information on some of the factors that could affect our future results and outcomes. We will also discuss certain non-GAAP financial measures on today's call.

Reconciliation of our non-GAAP financial measures is contained in this afternoon's press release. And with that, let me now pass it over to Matt.

Matt Meeker

Co-Founder, CEO & Executive Chairman

Thanks, Mike, and good afternoon, everyone. Fiscal year 2025 is off to a strong start, building on the momentum we established last year. Our first quarter results are a testament to this momentum and progress, and we remain confident on our ability to accelerate our top line and deliver our first full year of positive adjusted EBITDA and free cash flow.

Last quarter, we delivered \$116.2 million of revenue, surpassing the high end of our guidance range. This was powered by quick wins from 2 of the strong leaders we hired earlier this year. Specifically, on the marketing side, we saw year-over-year growth in new BarkBox subscribers for the third consecutive quarter. Furthermore, we saw over 5% year-over-year growth in our commerce business with strong contributions from marketplaces like Amazon.

We're confident this is just the beginning for both BarkBox and Amazon. The strong revenue performance was more impressive given we delivered a record high consolidated gross margin of 63%, a 250 basis point improvement compared to Q1 last year. This is our seventh consecutive quarter of year-over-year gross margin improvement, and I'm so proud of the team for executing this well.

Finally, supported by further G&A and shipping and fulfillment improvements, adjusted EBITDA was negative \$1.8 million for the quarter, ahead of the top end of our guidance range and \$5.6 million or 76% year-over-year improvement. Overall, this is a great start to the year. BARK's talent is strong and provides the foundation for the top line growth we expect to begin in the current quarter. This progress, coupled with our strong balance sheet, enabled us to buy back roughly 3 million shares at a price of \$1.43 per share last quarter.

We plan to continue to seek opportunities to buy back our stock, given our belief that the market has yet to reflect the value of the company. Last quarter, I discussed the strong leadership team we assembled to accelerate growth. Just one quarter later, we're more enthusiastic about this team than ever, and they

started delivering right away. As I said, we achieved year-over-year growth in new customer acquisition for the third consecutive quarter, but there's so much more potential.

Our new CMO, Michael Parness, is already evolving our approach to customer acquisition and brand awareness shifting marketing dollars from bottom of the funnel, heavily promotional ads to a more sophisticated full funnel approach. Simply put, that means we'll spend less time talking about our promotions and more time talking about our overall brand proposition, including fantastic products. It's already working, and Michael and his team are just getting started.

On the commerce side of the business, our new CRO, Michael Black has also hit the ground running. I mentioned some near-term acceleration in marketplaces like Amazon that contributed to our strong quarter. Look for that to continue under his leadership. To that end, I'm excited to share that we have recently launched a selection of our best-selling toys at Chewy. The initial customer feedback exceeded expectations, and we're excited to expand our offerings to Chewy customers to include many more BARK products from toys to consumables in the coming months.

Overall, the new leadership team is off to a strong start. We're excited to see what they and their teams do to the rest of the year. One other growth lever that took off this quarter quite literally is BARK Air. BARK Air is the epitome of how we sell emotional experiences with your dog, and customers love it. The consumer response following our launch was incredible. We're less than 4 months in and demand for the service continues to grow.

To date, we have flown 24 flights between New York, Los Angeles and London and booked over \$2.5 million in ticket sales. BARK Air is exciting for a variety of reasons. First, it has driven incredible awareness for BARK. Millions of people worldwide have learned the company, our products and our underlying mission to make all dogs happy. Second, we are solving a real pain point for dog parents who, before BARK Air, have limited options for traveling long distances with their dogs. We recognize the price point is not accessible to many today. However, with sustained demand, we can lower cost and make the service more accessible to more dog parents.

And third, we've quickly realized that this service can become a real business. Most of our flights are sold out, and we've received tens of thousands of requests for new flights and destinations. This is the best start we could have hoped for, and there are more opportunities ahead. Overall, I'm thrilled with how far BARK has come in the past 2.5 years. In that time, we've delivered 7 consecutive quarters of year-over-year gross margin improvements. We've built a strong balance sheet with \$118 million of cash and has after buying back over 7 million shares to date and \$45 million of our outstanding convertible amount.

Our inventory balance of \$80 million has also come down from its peak, freeing up working capital and allowing us to be more nimble. We've also delivered 8 consecutive quarters of year-over-year adjusted EBITDA improvement, and we're on track for our first positive adjusted EBITDA and cash flow year in our history. This is a considerable feat considering we were burning nearly \$200 million of cash just 2 years ago. We're accelerating our growth in all channels and further diversifying our products from consumables to air travel. And as strong as our leadership team is today, it will only grow stronger as we build momentum and familiarity with each other. In my view, our business is the strongest it has ever been, and I'm excited for the future. There's so much more to discuss from this quarter.

So for that, I will now turn the call over to Zahir.

Zahir M. Ibrahim
Chief Financial Officer

Thanks, Matt, and good afternoon, everyone. I'll begin by providing an overview of our first quarter results, followed by our outlook for the fiscal second quarter and full year 2025. As Matt mentioned, we started the year on a strong note, delivering our third consecutive quarter of new subscriber growth and growing our commerce business by over 5% year-over-year, fueled by growth in existing and new accounts and our recent consumables expansion into retail. Additionally, we continue to see healthy improvements in gross margin and strong traction on our path to profitability, the latter being something we expect to continue in the long term.

Overall, we are observing encouraging trends across the business, enabling us to capitalize on the significant opportunity ahead. On that note, let's look at our first quarter results in more detail. Total revenue was \$116.2 million, exceeding the high end of our revenue guidance range for the quarter. From a segment perspective, our D2C business generated \$107.1 million in the quarter. As you may recall, we saw headwinds in new subscriber growth in the first half of last year as inflation and rising interest rates pressured discretionary spending.

While it's still too soon to declare victory on this front, we have been encouraged by new subscriber growth over the past 9 months, and we are continuing to evolve and refine our customer acquisition tactics. As a result, we expect our B2C segment to return to growth in the back end of fiscal 2025 and to a greater extent in fiscal 2026. Turning to our Commerce segment. We delivered \$9.2 million of revenue in the quarter, a 5% increase compared to last year.

During the quarter, we introduced our new treat line in 1,000 PetSmart doors, expanded our presence on Amazon and launched an initial line of our best-selling toys on Chewy. Furthermore, after 12 to 18 months of retail is carefully managing inventory levels, we're beginning to see order patterns normalize. As we've discussed over the past several quarters, we expect our commerce segment to be a key driver of long-term revenue growth, and we're beginning to see it reflected in the P&L. At a minimum, we expect our commerce segment to see high-teen growth in fiscal 2025 compared to fiscal 2024.

In addition to promising top line trends, we continue to deliver healthy improvements in gross margin. On a consolidated basis, our gross margin was 63%, reflecting a 250 basis point improvement year-over-year. On a segment basis, D2C gross margin improved by 230 basis points to 64.5%, while commerce gross margin improved by 680 basis points to 46.5%. This is fantastic progress in a short amount of time, and we're incredibly proud of the team for their execution on this front.

Turning to operating expenses. Shipping and fulfillment expenses were \$34.4 million in the quarter, a \$1.8 million improvement compared to last year. Other G&A, which primarily consists of head count and overhead costs was \$29 million in the quarter, a \$4 million improvement compared to last year. This improvement primarily reflects realizing the full year benefit of the 2 cost reduction initiatives we carried out in calendar 2023.

Lastly, total marketing expenses were \$20.4 million in the quarter, a \$2.8 million increase compared to last year. As discussed on previous calls, the significant improvements we've made across gross margin and G&A enable us to invest more in marketing, so long as the returns we are seeing justify that incremental investment. Given our recent progress, we intend to continue to invest incrementally in this line.

Moving on. Total adjusted EBITDA for the quarter was a loss of \$1.8 million, a \$5.6 million improvement year-over-year. Furthermore, free cash flow in the quarter was largely neutral at just \$251,000 outflow, a notable improvement compared to Q1 last year, which was minus \$13.5 million. We ended the quarter with total cash of \$118 million, which reflects repurchasing 3 million shares in the quarter at an average price of \$1.43. Given the business' profitability profile and future cash flow projections, we plan to continue to opportunistically repurchase shares at these levels.

Following our Q1 repurchases, we have \$12.3 million remaining from our most recent Board authorization. Additionally, our working capital situation continues to improve. We ended the quarter with an inventory balance of \$80 million, a \$4 million reduction in the quarter. As we prepare for the holiday quarter, we anticipate our inventory to grow sequentially in the second quarter. However, we expect it to continue its downward trend in the second half of fiscal 2025, and we will likely end the year below current levels.

Overall, we see several exciting developments from promising top line opportunities to ongoing margin and free cash flow improvements. With that in mind, let's discuss our guidance for the second quarter and full year.

Starting with the full year, we are reaffirming the guidance we provided during our Q4 call in June. While there are numerous reasons to be optimistic about the opportunities ahead, we believe it's pragmatic to maintain the current outlook given we are just 1 quarter into the fiscal year. Nevertheless, our strong Q1

results give increased confidence in our ability to achieve our targets. To reiterate, we anticipate total revenue for the year to be between \$490 million and \$500 million, representing year-over-year growth ranging from flat to 2%. For adjusted EBITDA, we expect a range of \$1 million to \$5 million, which at the midpoint represents a \$13.6 million improvement compared to the previous year.

Additionally, we expect to achieve adjusted EBITDA profitability and free cash flow for the full year, a first embarked 13-year history. For the second quarter, we anticipate total revenue between \$123 million and \$126 million. The midpoint of the guidance range represents 1.2% year-over-year growth, marking an important turnaround after 8 consecutive quarters of year-over-year revenue declines. We believe we will see further growth as the year progresses, albeit growth on a much more profitable infrastructure.

On an adjusted EBITDA basis, we expect a range of \$1 million to \$3 million in the quarter compared to \$1 million profit last year. The second quarter will index heavier to the commerce channel with retailers taking in holiday product and with greater opportunities for secondary placement. This higher commerce mix will impact our gross margin in the quarter. And as a result, we currently expect Q2 consolidated gross margin to be around 60%. However, for the full year, we continue to expect similar consolidated gross margin to FY '24.

In conclusion, we are seeing promising trends across the business. We expect to return to revenue growth in the current quarter. Our profitability profile is improving with each passing quarter, and we have approximately \$80 million of net cash on the balance sheet. Collectively, this affords us ample opportunity to execute on our growth plans and opportunistically repurchase our shares. We remain committed to driving sustainable, profitable growth and enhancing long-term shareholder value. With that, I will turn the call over to the operator for Q&A.

Question and Answer

Operator

Our first question today comes from the line of Maria Ripps with Canaccord.

Maria Ripps

Canaccord Genuity Corp., Research Division

First, I just wanted to ask you about sort of the broader macro backdrop. It seems like your results and outlook were pretty much better than expected. But could you maybe talk about whether you've seen any changes in consumer behavior in Q1 and maybe so far in fiscal Q2, given that recessionary concerns have been reemerging in recent weeks? And maybe how much sort of more pressure do you think category demand could come under if we enter into maybe a prolonged period of softness given that consumers have already been pulling back on discretionary good spend for some time?

Matt Meeker

Co-Founder, CEO & Executive Chairman

And they have been pulling back on the discretionary spend. And that's as you mentioned, it's been going on for some time. And that continued through Q1 on those discretionary goods. We obviously keep close tabs on the macro environment and that category, in particular and manage against that. But the counter to that, as I've talked about in the past, is that we have a lot of room here to execute better, especially when it comes to the growth and marketing side of the business. And we've been showing steady improvement in that execution over the past few quarters. So I think this quarter is another reflection of that.

The new subscriber acquisition trend that we saw this quarter, it's our third consecutive quarter of year-over-year growth. It's up in July as well. And if we continue that execution even with that headwind or that pressure that you're talking about, then we expect to see the direct-to-consumer business to start to grow in the second half of the year. And we're seeing ourselves outperforming the category in the retail space as well. As I mentioned, we're picking up steam in Amazon. We announced that we're selling with Chewy now, which is just another great venue for our products to be. So there's a lot of positive momentum in there.

If or when, I should say, when the macro environment turns and goes back to the discretionary goods categories growing, then we're going to have Winter back with much better execution in addition to our strong gross margins, our EBITDA positive, our cash flow generation, all of that. So we've got those pieces in place that help us ride it out. But really, it's on us to execute in the face of those headwinds as we've been doing for a good stretch of time here, and it's only getting better.

Maria Ripps

Canaccord Genuity Corp., Research Division

And Matt, you sort of touched on my second question, but can you maybe talk about some of the key drivers behind continued strength in new customer acquisition this quarter? And what are some of the sort of maybe different techniques that you're deploying that are driving this? And I guess how sustainable is it going forward?

Matt Meeker

Co-Founder, CEO & Executive Chairman

Very sustainable because as I said, well, there are a few things going on in there. On the direct-to-consumer side, there's the new customer or new subscriber acquisition that's been going well and picking up steam with a variety of new tactics, some of that on the creative side using artificial intelligence tools to generate more and better creative and do so more efficiently.

Ironically, part of that is getting us to move away from being so promotionally driven. We've definitely gone way too far to the side of giving customers the only impression to subscribe is because we're offering some promotion or gift with purchase. And ironically, artificial intelligence would rather tell the great stories that our products have to tell. This is what's -- why you should buy it. That's not some sort of incentive. So better creative, more efficient creative, a lot more of it, better conversion by matching that up to the stories that we're telling about the products. And then as you're starting to balance that you're telling the story of the product and occasionally giving promotional offers.

On the commerce side of the business, as you said, I touched on it, but leveraging channels like Amazon and Chewy much more than we have in the past, great leadership from Michael Black and his team on the retail side. So just a lot of good things happening that have been in motion and building. And again, Michael Black, Michael Parness are 4 months into the role now. So that momentum should just gather some even more.

Operator

Your next question comes from the line of Ryan Meyers with Lake Street.

Ryan Robert Meyers

Lake Street Capital Markets, LLC, Research Division

First one for me here. Maybe can you just touch on a little bit what you said about the gross margin in Q2? I think you said it was going to be around 60% or so with the more heavily weighted towards retail. Just kind of walk us through the dynamics of that and remind us kind of why that business shakes out to be a little bit lower margin.

Zahir M. Ibrahim

Chief Financial Officer

Sure. So we're seeing now 7 straight quarters of gross margin growth. So that's improvement in both D2C and in the commerce channel over that period of time. It's been driven a lot by improvements in our product costs, both on the toys and consumables side and some improvement in freight costs as well over that window. We expect all of that to continue during the course of the year. The dynamics of Q2, there's a lot of holiday buying. There's a number of opportunities for, as I said, on the call for secondary placements. So offshore of in-line placements that could be gondolas or center for placement within the store in certain retail customers.

And so Q2 is going to be a heavier weighted commerce mix for us than what you'd see on a full year basis. Our margin on the commerce channel is around the mid-40s. D2C is in the mid-60s. So when you index to a slightly higher mix on commerce, that will impact your gross margin. So that's why we called out gross margin. The important thing to remember, though, is the cost to serve, the commerce channel is lower from a shipping and fulfillment and marketing perspective. So when you look at profitability at the contribution margin level, it's very similar on both channels.

Ryan Robert Meyers

Lake Street Capital Markets, LLC, Research Division

And then just thinking about the Chewy launch, obviously, congrats on that, but maybe walk us through kind of how that developed. I know you guys have been around for a while and obviously Chewy has been around for a while, but I don't believe you guys were selling products to them previously. So maybe walk us through how that sort of developed and kind of how you expect that business to play out? And then maybe could we expect to see products expanded outside of just toys there?

Matt Meeker

Co-Founder, CEO & Executive Chairman

Yes. We've obviously known Chewy for a very, very long time going back 12 years or so. So and we are both very, very young companies talking about commercial relationships way back then and more recently about selling our products on their platform over the past couple of years. And it's never really clicked into place until earlier this year. And then Michael Black and his team came in, they've got great experience

working with Chewy selling there. So I think they helped us from our side in taking those last steps and getting it over the line and building a really strong relationship there.

So we're off and running. We're off to a great start. They've been just a fantastic partner so far. And where we're heading is over the course of this year to get our full catalog on to their site and be selling everything, including all the consumables that we can get over there. So great start. We think there's a lot of big upside, a lot of potential. They obviously have built a fantastic business, and it's a long time coming. So we're thrilled to be partnered with them.

Operator

Your next question comes from the line of Kaumil Gajrawala with Jefferies.

Kaumil S. Gajrawala

Jefferies LLC, Research Division

A couple of questions. I guess the first one is subscriber growth, again, great. But it looks like average orders or number of orders still down. So just curious if there's anything in that figure that we should be aware of and maybe what you're doing to try to reverse that?

Matt Meeker

Co-Founder, CEO & Executive Chairman

What you're seeing in terms of the subscriber growth is what we're doing to reverse it. It's just the subscriptions take time to compound. And so what we've seen in these last 3 quarters has not yet made up for the declines that we saw in the first half of fiscal 2024. But we expect that to start to turn not this current quarter that we're in, but next quarter. And then overall, we expect the D2C revenue to be flattish year-over-year, but really to begin to grow in our fiscal Q3.

Kaumil S. Gajrawala

Jefferies LLC, Research Division

And congrats on the Chewy launch, very cool. I think you might have hinted at it if I look back, I think you might have hinted at it, but we didn't know for sure. I believe it's starting with toys or are your consumables in there as well? And at least on the toy side, how do you differentiate yourself on a site like that?

Matt Meeker

Co-Founder, CEO & Executive Chairman

The toys are there. No consumables yet. And how do we differentiate ourselves really anywhere. I think part of that is a marketing challenge of knowing the platform and how to best position ourselves in great photography, great video, making sure that we have the right assets and, I would say, descriptions around our products.

Another part of it, obviously, is having great products and great reputation and high ratings. And so we have to back that up into our product development and being in tune with the customer. We are fortunate that we have 1 million-plus customers every month who are giving us feedback about our products, and we feed that into our product development. So that should be a giant advantage over most other toy or product companies.

The thing that we've done now since Michael and Michael have joined is we've now put product development together with the marketing side, bringing those 2 much closer together. So Michael Parness making sure that every product that we put out is an expression of the brand and living up to the brand and not just being just another toy. So hopefully, product development elevates from where it already is, that reputation gets out there, it comes with a marketing and brand awareness mindset behind every product. And then we go through and we do the -- I'll call them the basics of executing on the platform really, really well.

Kaumil S. Gajrawala

Jefferies LLC, Research Division

And I don't know you probably were busy prepping for earnings, but you got to shut out on CNBC from Shopify. So I guess the transition to the technology transition is happening. Maybe you can just talk a bit about -- are we there yet? Have you consolidated the various platforms and it to go forward? And then perhaps what impact that should have on margins as we look in the coming year?

Matt Meeker

Co-Founder, CEO & Executive Chairman

We're not there, there yet, but we continue to transition over some of our active customers and a little bit of our ad spend. So we have, let's say, the technical pieces in place. So if we wanted to pick up and move everyone today, we could. What we're getting to is getting the business to be at parity with it. But we're still -- we feel like the most realistic time line for that to happen is fiscal Q4. We could probably do it sooner, but one thing we definitely don't want to do is disrupt our holiday season. So it's likely in fiscal Q4.

Operator

Your next question comes from the line of Ygal Arounian with Citi.

Maksim Rakhlenko

TD Cowen, Research Division

Max on for Ygal. I guess I just wanted to add some more maybe on the -- some of the commerce and partnership side. I don't know if you've called out Amazon specifically before, but just curious maybe what drove the strength there if you're doing anything differently? And then just maybe on the treats going in commerce, -- just any other color there you can provide on how that's been trending, what you're seeing and then maybe expectations? I know you're in, I think, 2 stores right now. I'm not sure if you're talking -- assuming you're talking with other stores, but maybe just a time line for how those talks are going and expectations for that to roll out?

Matt Meeker

Co-Founder, CEO & Executive Chairman

Yes. I'll comment quickly. This is Matt on the Amazon side of it. For Amazon, again, like pointing to the strength of new leadership, Michael Black coming in with some real strong performance there in some past lives and bringing great talent with him, understanding that platform and really elevating our performance there. Some of that is just the basic blocking and tackling of the platform. Some of it is better marketing. And what's really encouraging there is we're only 4 months into his tenure and some of his team's tenure here. And so the elevation we're seeing there is it because we have some fantastic products, they're using laying around today. So when we start to create product specifically for that channel or that environment and we order properly for the sales volumes, I think we have the opportunity to really accelerate. So it's as simple as talent. That's what it comes down to. And then here is going to chime in on the second.

Zahir M. Ibrahim

Chief Financial Officer

Sure. So just on the consumables that we launched into retail, so we're in with obviously target and PetSmart -- we launched with our character treats. Early days. The feedback from our retail partners is they're happy with the start that we've made. Obviously, we're continuing to take the learnings of everything that we're doing in terms of shopper marketing, any promotions we run, how we can elevate our performance going forward. So we're continuing to work on that.

We've already managed to secure further distribution within those retailers for seasonal offerings in some of the major holiday windows. So that's really a positive signal. I think just thinking about consumables more broadly. There's really a sizable opportunity for us to expand on Amazon and Chewy fairly quickly, particularly with our dental and [indiscernible] products. And then as you think about the next resets within retail, which would be Q4 this fiscal year going into Q1 next fiscal year, that's when you'd expect to see further impact in terms of more doors and distribution in retail.

Operator

This concludes today's conference call. Thank you for attending. You may now disconnect.

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