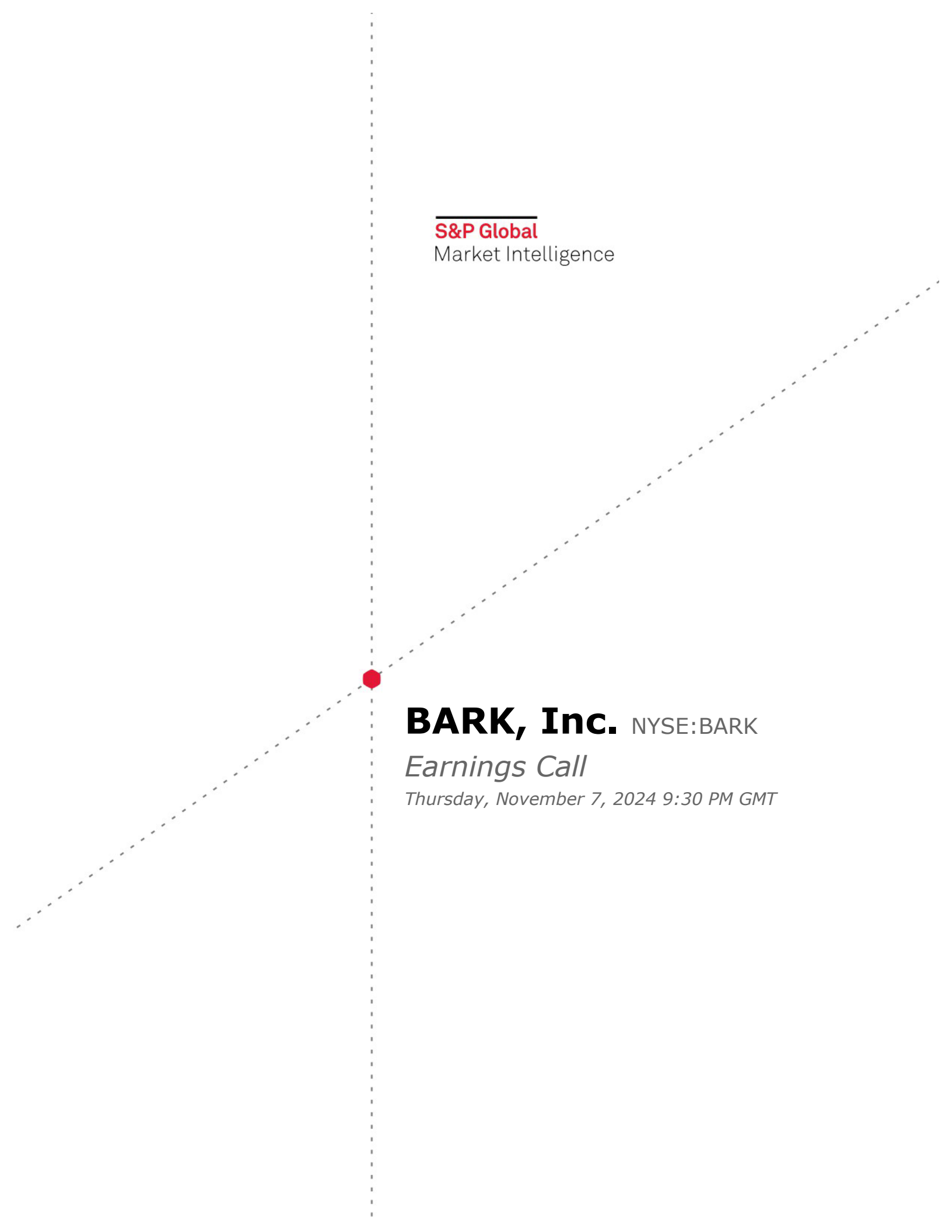




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Earnings Call

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Unknown Analyst

Presentation

Operator

Thank you for standing by. My name is Bailey, and I will be your conference operator today. At this time, I would like to welcome everyone to the BARK Second Quarter Fiscal 2025 Earnings Conference Call. [Operator Instructions]

I would now like to turn the call over to Mike Mougias, VP of Investor Relations. You may begin.

Michael K. Mougias

Vice President of Investor Relations

Good afternoon, everyone, and welcome to BARK's Second 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 more 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.

On our last earnings call, I shared my enthusiasm for the strategic talent additions we made earlier in the year, strengthening our talent, coupled with improving the foundational components of our P&L, and it was time for us to focus our energy on driving top line growth. I'm pleased to report that the team is tackling this objective aggressively, laying a foundation for sustainable long-term growth.

Let's start by reviewing some highlights from our fiscal second quarter. Last quarter, we delivered \$126.1 million of revenue, surpassing the high end of our guidance range and marking a 2.5% increase compared to the same period last year.

While our long-term growth ambitions are far greater, it's worth noting that this is our first quarter of year-over-year revenue growth in 8 quarters. This is a return to growth, an important first step, and we remain enthusiastic about what's ahead, especially given that many of the growth initiatives the team has been focused on are just beginning to be reflected in our results.

One area that we've highlighted as an important revenue driver is our commerce segment. To that end, I'm pleased to report that this segment grew 26% year-over-year, driven by adding new partners like Chewy, Fressnapf and expanding with existing partners like Costco, T.J. Maxx and Amazon. I'm also happy to report that through the first half of our fiscal year BARK was one of the top-selling new treat brands in both Target and PetSmart. This is very encouraging, as our brand and products clearly resonate with these leading retail customers and bode well for future retail expansion.

In addition to recent top line growth, we delivered a 60% consolidated gross margin in the quarter. It's important to note that the proportion of our commerce revenue in the quarter, which was a big positive, impacted our consolidated gross margin.

But that's not the full picture. It's key to remember that while the gross margin in our commerce segment is lower than our DTC segment, the contribution margin is on par, if not slightly higher, than DTC. Today, it's more profitable with a lot more growth

potential, which is why we're pushing for commerce to be more than 1/3 of our revenue and are excited by our progress towards that goal.

The strong 60% gross margin and our continued cost improvements in G&A and shipping and fulfillment resulted in an adjusted EBITDA of positive \$3.5 million in the quarter, our strongest EBITDA quarter in the company's history. This was ahead of the high end of our guidance range and reflects a \$2.5 million improvement compared to last year. Halfway through our fiscal year, this puts us at positive adjusted EBITDA of \$1.7 million and on track for our first full year of profitability.

Additionally, we achieved another quarter of positive free cash flow, generating \$1 million in the period.

As I mentioned earlier, our profitability improvements have been significant, and now we're seeing the top line growth drivers kick in. As expected when we started the year and consistent with our guidance, we expect to deliver full year profitability for fiscal year 2025 as we start returning to growth, especially in our commerce and air business lines.

So let me discuss some of those opportunities. In our DTC segment, we delivered our fourth consecutive quarter of year-over-year new subscriber growth. Our new CMO, Michael Parness, is actively implementing a full-funnel strategy designed to showcase not only our exceptional products, but also to elevate brand awareness and reinforce our mission.

By fostering stronger connections with our audience, we can reach more dog households, increase basket size and improve customer retention. The team is developing several new brand-focused campaigns that we're excited to unveil in the coming months. This requires moving some dollars from the bottom-of-funnel spending that yields new customers immediately into planting seeds of awareness that will unfold over a longer time horizon.

We've started that transition now and will continue throughout this year, meaning we will give up some short-term gains in DTC for the long-term acceleration we've been lacking. Those short-term gains are also hollow calories. We can add new customers, but the further we reach into Facebook for them, the more we pay and the lower quality they are.

This transition will, in time, take us to a world where we expect to grow faster and more profitably at the same time.

Related to this, we've been moving more of our existing customers to our Shopify-based platform at bark.co. We're so encouraged by the progress that we decided to move our DTC ad spending to this new platform in October.

Any shift to a new website comes with some bumps in the road. But on the whole, we did this because we saw the opportunity for higher new customer conversion at a lower cost of acquisition in the long term. We can also push those performance marketing savings into our top-of-funnel brand awareness activities, which should lead to a healthier marketing mix over time. This has been a long time coming and something we decided to do earlier than expected given the significant progress we're making in other areas like commerce.

Nonetheless, our most immediate opportunity for rapid growth is within our commerce segment. Six quarters ago, we discussed an ambition for our commerce segment to grow from 12% of revenue to over 1/3. We're on course for that, with 18.6% of revenue coming from commerce this quarter and more growth coming.

And as I said before, this segment is more profitable than DTC today. So faster growth here translates to faster growth on both the top and bottom lines. The progress is faster than the results due to the long lead times in this channel, but we're highly encouraged by where we see it going.

As I mentioned, this segment grew 26% year-over-year, and there is still significant runway ahead. First, we plan to expand our consumables presence across more retail shelves, including treats, toppers, dental and kibble. Under Michael Black's leadership, the team has made significant strides, and we have ample opportunities, both domestically and internationally.

Beyond our brick-and-mortar footprint, we expect sizable growth through Chewy and Amazon. We launched with Chewy in June, and I'm pleased to report that our full suite of products from toys to kibble is now available on their platform. They've been an outstanding partner, and we're thrilled with the progress.

Additionally, while Amazon was a relatively small revenue contributor last year, we anticipate it will become a much more meaningful driver of our top line over the coming years.

These e-commerce channels serve to not only drive long-term revenue growth, but also help raise awareness of our brand and growing product portfolio.

Additionally, we entered the second year of our Girl Scouts partnership in September, offering their customers 3 SKUs, up from just 1 last year. This year's program, which concludes this month, has gone exceptionally well, far outpacing last year's program, through their digital channels. We are excited to deepen our partnership in the future and hope to have more to share on that soon.

Lastly, I'm excited to announce that we recently released Pet Crocs, created in collaboration with the Crocs team. As of October, BARK customers could add Crocs-style shoes for their dog to their monthly box.

We love these types of partnerships [indiscernible] and Subaru are great examples of how we can broaden our audience and elevate awareness of the BARK brand.

Overall, there's a ton of opportunity for us in this segment, and we remain confident that commerce will comprise at least 1/3 of our total revenue within the next 3 to 4 years.

The last area I would like to touch on is BARK Air. To date, we've flown 50 flights, which includes 425 dogs and 449 humans. We've also booked over \$4.5 million in ticket sales since launch.

Last quarter, BARK Air delivered \$1.5 million in revenue and positive gross profit in the second quarter, as utilization has been in the mid-90% for the past several months.

As this initiative scales, we see opportunities to lower our costs as well as the cost to the consumer, making air travel accessible to a much wider audience of dog parents. Not only is this initiative driving incredible awareness of BARK, but we see a real business opportunity long term.

Overall, there are a lot of exciting things happening at BARK. We delivered our strongest adjusted EBITDA quarter in company history, which represents our ninth consecutive quarter of year-over-year adjusted EBITDA improvement. We are on track to deliver our first adjusted EBITDA positive year in history, which is huge progress from losing \$57 million only 3 years ago.

We are seeing green shoots on our top line, with our commerce segment expected to grow 30-plus percent this fiscal year and grow even faster next year.

We ended the quarter with a healthy cash balance of \$115 million, which affords us plenty of flexibility to invest in future growth. This cash balance also reflects the company buying back over 8 million shares over the past 12 months.

And the new leaders we added to the team are off to a very strong start in their first 6 months. Just wait until they've had a full year together.

So overall, this is really coming together, and I'm excited about what's in store for BARK.

With that, I will turn the call over to Zahir.

Zahir M. Ibrahim
Chief Financial Officer

Thanks, Matt, and afternoon, everyone. Our recent results reflect the tangible progress we have made in improving our profitability profile, with consistent gains in gross margin, adjusted EBITDA and free cash flow. Under our new leadership team, we're also gaining clearer visibility into the top line acceleration in Fiscal '26 and beyond, particularly in our commerce channels. Overall, we believe this puts the business in a strong position for profitable long-term growth.

Let me dive into our fiscal second quarter results in more detail. Total revenue in the quarter was \$126.1 million, a 2.5% increase versus last year.

Looking at our revenue in more detail, our DTC segment contributed \$102.6 million, which includes \$1.5 million of revenue from BARK Air. The DTC segment was down 1.6% year-over-year, as total Box subscriptions remain below last year's levels. With that said, we have made solid progress over the past 12 months, including 4 consecutive quarters of year-over-year growth in new subscriptions.

As we transition all paid traffic to bark.co, we're adapting and fine-tuning our DTC strategy to optimize for this new platform. While we anticipate a period of more measured DTC performance as we complete this shift, we remain encouraged by our growth trajectory within the commerce segment, which has allowed us to accelerate this transition.

On that note, we delivered \$23.5 million of commerce revenue last quarter, a 25.6% increase compared to the prior year. For the full year, we now expect the commerce segment to grow at least 30% compared to Fiscal '24.

The team has done an outstanding job securing new retail partnerships and deepening our relationships with existing ones. We expect this growth profile to continue, with the commerce segment projected to account for 1/3 of our total revenue over the next 3 to 4 years.

Moving on, our consolidated gross margin was a very healthy 60.4% in the quarter, despite being impacted by the larger share of commerce revenue. On a segment basis, DTC gross margin, excluding BARK Air, was 65%, in line with last year. Gross margin in our commerce segment was 45%, up 250 basis points versus last year.

Looking ahead, there are opportunities for small margin improvements. However, the mix shift from DTC to commerce will impact our consolidated gross margin, going forward. The good news is the recent contribution margin in commerce is equal to or better than DTC. So our expected growth in that segment should have a positive impact on overall profitability.

Turning to operating expenses. Shipping and fulfillment expenses were \$34.1 million in the quarter, or 27% of total revenue. This is a 100-basis point improvement versus Q2 in Fiscal '24, largely reflecting the more favorable shipping terms we secured towards the end of last year. Additionally, we see opportunities for further improvement through network optimization, which the team is laser-focused on.

Other G&A, which primarily consists of headcount and overhead costs, was \$29.1 million in the quarter, a \$5.4 million improvement compared to last year. This improvement primarily reflects lower headcount costs associated with managing our organization structure to meet the evolving needs of the business.

Total marketing expenses were \$18.7 million in the quarter, a \$0.9 million increase compared to last year. Michael Parness and his team have been refining how we invest those marketing dollars, starting to move away from heavy promotions and lower-funnel marketing to a more holistic full-funnel approach. In the long run, we expect this strategy to raise awareness, improve conversion and retention and reduce customer acquisition costs. Importantly, this is a line item that we can flex up or down depending on the returns we are realizing on those marketing dollars.

Lastly, adjusted EBITDA for the quarter was \$3.5 million, a \$2.5 million improvement compared to last year and our strongest adjusted EBITDA quarter as a public company.

Additionally, free cash flow in the quarter was positive \$1 million. Year-to-date free cash flow is positive \$715,000, reflecting a \$12 million improvement versus Fiscal '24.

Turning to the balance sheet. We ended the quarter with total cash of \$115 million, down \$3 million versus the previous quarter, reflecting working capital timing, along with repurchasing over 540,000 shares in the second quarter. Following our Q2 repurchases, we have approximately \$11 million remaining from our most recent board authorization and plan to continue to opportunistically take advantage of the share price at current levels.

Overall, we see several exciting developments across the organization, from promising revenue opportunities in commerce to continued profitability improvements and a healthy balance sheet.

With that in mind, let me turn to our guidance for the fiscal third quarter and full year. Starting with the full year, we reaffirm the initial guidance from our Q4 call. To reiterate, we expect total revenue for the year to be between \$490 million and \$500 million, representing year-over-year growth between 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 last year and would mark the first EBITDA positive year in BARK's history. We've had a strong start to the year, and we see significant long-term growth potential in the business.

It's also worth reiterating that our Shopify transition is underway. Early indicators are encouraging, and we're excited about the enhanced experience and functionality this shift will bring over time. However, we anticipate some early-stage learning and refinements along the way. Nonetheless, we believe this is an important step towards a more efficient and impactful DTC business in the long run.

For the fiscal third quarter, we anticipate total revenue between \$123 million and \$126 million, the midpoint of which would broadly be in line with last year.

We also expect another strong performance in Q3 from the commerce segment, which will likely represent 15% to 17% of total revenue. As a reminder, this mix will impact our consolidated gross margin in the quarter. However, it should provide a tailwind to our contribution margin.

For adjusted EBITDA, we expect a range of breakeven to minus \$3 million. The midpoint of this range would reflect a \$4.9 million improvement compared to last year and mark our 10th consecutive quarter of year-over-year adjusted EBITDA improvement.

In summary, we have made a lot of progress over a relatively short time horizon. We're on track to deliver our first full year of EBITDA profitability, and the new team has hit the ground running, laying a strong foundation that should enable us to drive sustainable long-term growth.

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

Question and Answer

Operator

We'll take our first question from Maria Ripps, with Canaccord.

Maria Ripps

Canaccord Genuity Corp., Research Division

So you talk about new subscriber growth being positive for the fourth consecutive quarter, which is great to see. Can you maybe talk about your thoughts on translating that into total order growth, where it seems like trends have been improving nicely, but sort of the number is still down slightly year-over-year. And then maybe more broadly, when do you anticipate sort of your brand awareness initiatives to start contributing to stronger order growth?

Matt Meeker

Co-Founder, CEO & Executive Chairman

Maria, thank you. Thanks for the questions. So on the first one, we're getting to that inflection point. And as we said, we've had that progress of 4 consecutive quarters now with year-over-year improvement in the number of new subscribers added. We're doing it all with a headwind, where the toy industry continues to be down year-over-year. So that makes it more difficult.

But we still have those growth opportunities, and we're still picking up pace, which is what I talked about in the past, that we have room to perform better, to operate better than we have, and we still have that room.

So we're, I'll say, hopeful or we're looking to -- DTC may return to growth in the second half, but a lot of that's going to depend on this important peak holiday season over the next 6 weeks. And just given the uncertainty that's inherent in transitioning to a new platform from our legacy platform over to Shopify, we've moved all the ad spending now just in the past couple of weeks.

So we're just being more cautious because of that move, and we expect a bit more of a measured performance in DTC. But that's one aspect of it.

Another is we're moving away from the heavy promotional-type ads that give us what I call those hollow-calorie customers. They might be good for a little bit of revenue in the short term, but ultimately, we pay for them in the long term, and we don't get that ongoing momentum and growth that compounds over time and the profitability.

So that leads into your second question of the brand approach, which we're starting right now. You'll see a lot more as we get into Calendar Year 2025. But we know that seeding brand awareness doesn't have the immediate payoff that performance marketing does. So we'll plant those seeds, we'll continue to build that effort, and we'll get back to having really, really great brand awareness that's contributing. It's a playbook we're familiar with, we ran it for our first 8 years pretty well, and we've just got to return to that balance.

That's a long way of bringing those 2 answers together. I hope that answered it well for you.

Maria Ripps

Canaccord Genuity Corp., Research Division

That's very helpful. And then secondly, sort of given the outcome of the election, could you maybe refresh us on your level of exposure to potential tariffs? And to the extent you can comment, what percentage of your input cost comes from outside of the U.S. and from China, more specifically? And what are some ways that you may be able to maybe mitigate any potential impacts?

Matt Meeker

Co-Founder, CEO & Executive Chairman

We're certainly watching that, and it's something we've, I don't want to say just been thinking about in the last month or 2 or the last week or 2, but for well over a year and maybe longer than that.

This is a bit of Groundhog Day for us. When there was a potential for President Trump to be elected in 2016, we had the same kind of fire drill around what do we do if he's elected and if he puts the tariffs in place. And we did a lot of planning, a lot of work, put our mitigation plans in place. And then, as we know, tariffs were introduced in 2018 on many imports from China, but we were not impacted materially with our products. In addition to that, the potential tariffs that could come would only impact -- sorry, we've been in that process for a year once again here, and there are good plans in place for us to soften the blow if it comes.

The other part of that is the tariffs would only impact our toy business. Consumables, which is a sizable part of the business, are all domestically sourced. So that wouldn't be touched at all. And the diversification of the toy buying would be -- is, again, already underway.

So the last thing I'd say is, as you know from the results over the past couple of years, we've seen really healthy growth in the gross margin, the contribution margin, and it's given us some flexibility in the P&L. If we were going to give up some of that, I'd rather give it up to the customer in pursuit of growth than I would to tariffs.

But we're all in this together as an industry. So if our toys are being subject to tariffs, so will our competitors', and you'll see those reflected in the prices. And I think we're in a much better position given our gross margin profile to weather that.

Operator

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

Ryan Robert Meyers

Lake Street Capital Markets, LLC, Research Division

So thinking about the strong commerce growth during the quarter, is there any way you can quantify how much of that was new customers versus how much of that was just expansion within the existing customers that you have?

Zahir M. Ibrahim

Chief Financial Officer

Ryan, this is Zahir. I think it's fair to say that the growth was pretty balanced between existing and new customers. We've been focusing a lot on where the customer shops. So in the new channels, we're looking at things like Chewy and TikTok Shop. That's where we've seen good expansion. But we've also focused on expanding in other customers, like Amazon and T.J. Maxx as well, and they've driven and delivered strong growth as well. So both of those have been important contributors.

We've been working with partnerships, as you know, in particular, with Girl Scouts. And we ran a pilot program with them last year. This year, our demand on the pilot program is almost 2x what we did last year. So that's been another important contributor.

And I suppose the last piece that's also adding to the growth is the focus on international. So Matt mentioned Fressnapf in his remarks earlier on. And so a number of international customers are contributing.

So I'd say it's all around a balance of existing customers as well as new customers.

Ryan Robert Meyers

Lake Street Capital Markets, LLC, Research Division

Got it. And then thinking about the gross margin, it sounds like that obviously is going to come down as the commerce business makes a larger contribution. I mean, given what you guys reported here in Q2, is there any way to sort of talk us through the rest of this year, maybe a right number to be at for the full year as that business makes a larger contribution?

Zahir M. Ibrahim

Chief Financial Officer

Sure. So I think the key, and I think both Matt and I called it out earlier on, gross margin, obviously, in DTC is about 20 basis points higher on average versus commerce. But when you look at the cost to serve across both of those channels, commerce is a lot lower cost to serve. So when you go down to the contribution level, typically, they're fairly similar. I would say in recent times, commerce has actually been on a par, if not more profitable, at the contribution margin level for us. So in the nearer term, as we look to expand in commerce, that's going to be accretive to the bottom line. And so it will be a positive tailwind for us.

Operator

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

Unknown Analyst

[indiscernible] on for Ygal. I guess maybe on the bark.co transition, moving over existing customers and moving all the ad spend there, I guess, I know this is a little sooner than expected. So just curious maybe your thoughts on doing it heading into the holiday season since that's a busier one for you. And how should we think about how long that transition takes with the existing customers?

And then, Matt, I know you mentioned that it maybe impacts -- it's maybe having some impact on the DTC business. So just how should we think about the timing there? And would that maybe trade off -- how should we think about DTC growth through the rest of this year and into next?

Matt Meeker

Co-Founder, CEO & Executive Chairman

It's a great question. And obviously, we're very focused on it right now. You mentioned the timing being -- certainly of moving the ad spend probably 4 to 6 months earlier than we expected and right before the holiday season. So why are we doing that? Obviously, we were encouraged by what we were seeing in terms of the conversion rate. Certainly, liked the presentation of the site a lot more, and the flexibility of the platform allows us to move a lot quicker and test more rapidly.

So we were liking what we were seeing in comparison. And obviously, it's a different story when you have 5% or 10% of your traffic levels on one platform versus the other. So just seeing a higher conversion rate isn't the full story. You expect when you move a lot of traffic over, that's going to fall. But we had a sizable enough lead on it that we thought it'd be better to both roll the dice on that, if you will, and do it before the holiday seasons and hopefully gather some upside there.

At the same time, the real benefit is then we're able to take the strongest performers on our team and point them towards the highest-impact tests and activities that drive the holiday season, instead of having those efforts split.

So again, we just moved that ad spending or started to move it a couple of weeks ago. There's a lot that goes into it, both on our side and on the ad partner side. We've got to retrain -- the various algorithms at Facebook, at Google, they need to relearn that, learn our business again. And that's not a months-long process, but it's not a couple of hours either. So we're making our way through that.

Again, early, early days. So we're -- I've got to be cautious about it, but we're cautiously optimistic.

Sorry, and I think there was a second part of your question that I'm forgetting. I'm sorry about that, [Max].

Unknown Analyst

That's fine. Just maybe on, like, timing, like how long we should expect this to take as we move through the year?

Matt Meeker

Co-Founder, CEO & Executive Chairman

With the move of ad spending, we've moved it. And so then it's a question of how long does it take to get through those, I'd say, like that retraining side of things, and we'll be through that this quarter. So that's not something that's going to drag out for a few more quarters. We'll be through it this quarter.

And then hopefully, we get around to -- we continue to work on bringing our cost of acquisition down, bringing our conversion performance up, just normal course of business from, call it, January 1, forward.

On the movement of the entire subscriber base, we've been moving over small cohorts pretty much every month for a few months now and learning about their retention and their upsell habits and how do we get those to parity with what we see on the legacy side, making really good progress there. That's one where we're pretty close as well, but we will wait until after the holiday season to move everyone over. And we still fully expect that we'll have everyone migrated by the end of the fiscal year; so by the end of March.

Operator

And there are no further questions at this time. This does conclude today's conference call. You may now disconnect.

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