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Nexttracker, Inc. (NXT)

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CORPORATE PARTICIPANTS

David P. Bennett
Chief Financial Officer, Nextracker, Inc.

MANAGEMENT DISCUSSION SECTION

Unverified Participant

All right. Good morning, everyone. I think we'll get started here with the next panel. We're going to be talking about the utility-scale solar market, US, EU, global. To my left, pleasure to introduce Dave Bennett, CFO of Nextracker, the largest solar tracker supplier in the world. And also for those of you that less familiar with the story, just recently completed a spin-off from parent company Flextronics just earlier this week. And so seemingly a lot more liquidity in the stock, but also a cleaner shareholder setup, if you will.

QUESTION AND ANSWER SECTION

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So with that, just maybe wanted to jump in right away with the demand outlook, given this is a January conference, everyone's looking for what the growth forecasts are. And you guys have obviously one of the more global platforms out there across the entire solar value chain. So maybe if we go around the horn a little bit, key geo by key geo, what your view is on the outlook for 2024, starting with the US, obviously, the US is your mainstay focus where you made a name for yourself, also where a lot of investors here I would say have the focus heading into the new year. Some of the market pundits talking about kind of 10%, maybe 15% volume growth for the US utility-scale sector in 2023, which would be a slowdown off of the 2023 numbers which picked up a lot off of a softer 2022. So, maybe just kind of level set us as to where you think the market's headed, what you see as potential outcomes and then where Nextracker kind of fits into that spectrum.

David P. Bennett
Chief Financial Officer, Nextracker, Inc.

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Sure, sure. First, thank you for having me and we're very excited to be completing the spin. So now we're 100% on our own. And as folks that may be looking that that has put a lot of float into the market, so we did expect that. And it's something that companies go through when – when we're there, but we're super excited to be out.

In terms of growth, let me step back and talk about what we've done over the last five years, because for me the best indicator of growth is historic performance. Nextracker's had a 30% CAGR over the last five years. Now that is US and Rest of the World combined. We are one of the few companies in the space that actually has a global footprint and we can attack all the markets across the globe. So, excited about that. But the 30% CAGR over the last five years, parallel that with our market share at around 30% global [indiscernible] (00:02:49). And so with 30% CAGR, our market share remained relatively consistent at around 30%.

The reason I am prefacing that is the third-party growth projections along that path were very likely lower than 30%, but our market share didn't go up. So, one thing we've noted is that the projections seem to be a little bit conservative. The midpoint of our current year guide, and our year end is March 31, so keep that in mind. Our fiscal 2024 March 31 end, we're expecting a 24% growth in aggregate. We run at about 60% to 70% US, 30% to 40% Rest of the World. The US remains strong. When we started the IPO – we IPOed in February – we had originally said Rest of the World is going to grow faster, Rest of the World is going to grow faster. The US has been killing it and we still expect the Rest of the World to be very strong. But the US has, in essence, kept up with those because we've maintained that 60% to 70%.

So, that's our growth. And now you look at what our third party is saying. We have the EIA, Energy Information Administration, government agency that historically has been conservative [indiscernible] (00:04:16) the EIA says that solar is going to be the number one source of energy generation. In this five years to get to that, the EIA expects a 26% CAGR. This is for the US. And so for the solar to be there, that's not capacity, that's generation. So, we expect healthy growth.

As a long-winded answer to your question is, we expect healthy growth, our historical performance demonstrates that where we would think that, that is a little bit conservative on the 10% to 15%, US especially. Now, when you start looking at like our footprint across all the regions that we participate in, one of the advantages is when a region slows, another region is generally picking up. We've seen that. Brazil has been our second strongest market over the last three years. They continue to be our second biggest market. Its growth rate slowed a little bit because there was a lot of rain, and in Brazil, the hydro economics equalized and solar flattened out a little bit. We expect that to come back and it'll be strong. We're very excited to be in Brazil.

But all at the same time, Australia is picking up. India is maybe one of our most exciting markets that interestingly enough, we have 26 projects in India. We put those in a few years ago, then it flattened out, it got a little more CapEx-centric and we'll get to pricing in a few questions, I'm sure. But we're not going to necessarily plan a pricing environment that isn't contemplating levelized cost of energy over the life of the asset. But India has these projects in place [audio gap] (00:06:01) with a reference base of those projects. And there's nothing better than to have high-performing projects as a baseline to sell in. So, we're having a lot of traction in India, super excited about it. And overall, we think and what we've been saying is that the growth rate will, in aggregate Rest of the World and the US, relatively be consistent across each other. And I would say the 10% to 15% is conservative.

Q

That's super helpful color. Maybe sticking with the US for just a moment, lot of different moving pieces. You got the IRA, we can talk about competition and pricing in a bit. But there have been a couple, I guess, mixed messages coming out from your part of the value chain, project pushouts, interconnection delays, even some guidance cuts. And then on the flip side, a lot of this sort of pent-up IRA demand that is yet to come. So, when you think about your growth outlook, do you see it the same way where you're seeing some of those ins and outs of projects moving up and down sort of the hierarchy? And then you're waiting also for this whole sort of IRA backlog to convert, or where do you stand in that context?

David P. Bennett
Chief Financial Officer, Nextracker, Inc.

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Sure. So let me be – speaking of Nextracker, we support our competition and some of them – some of my comments might be a little bit inconsistent with that, but I'll speak with where we're at. We have not seen a delay

in booking deals because of lack of clarity with IRA. We continue to book deals [audio gap] (00:07:43) significantly over \$3 billion today. Some of those deals [audio gap] (00:07:50) domestic content, we have a volume commitment agreement arrangement that has – in essence, think about it as moving from a project basis to a program basis, which is like an evidence of evolving of the industry in my opinion.

This allows multiple projects to be under a customer contract that allows to synergize across, design across, supply chain across those things. So, we've seen no real delay, which means I don't expect a pent-up windfall coming in as a result of any clarifications.

You spoke about headwinds. The headwinds are real. We have interconnection, permitting, labor to some extent, panel availability for the US sometimes, all of those are real. However, we see the tailwinds being significantly stronger than those headwinds. And an example of what Nextracker does to manage through those is just think about it as a few years ago, we'd have 50 projects and you'd see a delay of one or two of those projects related to some permitting or interconnection. Today, we see more pushouts for interconnection, panels and labor. However, where we had 50 projects in the pipeline, we now have 250. So, we have the ability to manage and pivot to a different project and meet our commitments.

So, it's one of those things that these headwinds aren't new. There's something we've been working with and the Nextracker team has very deep experience in dealing with these things, working with our EPC partners, owner developers and managing to the time lines of projects that enable us to meet our economic commitments. And that's what we're doing.

Q

And can you also touch upon, Dave, customer mix? How important is that? Because I know you guys have kind of championed yourselves as having very large, high-quality Tier 1 customers as the predominance of your mix. Maybe some of your peers don't have that same level of exposure. Has that kind of differentiated you as well?

David P. Bennett

Chief Financial Officer, Nextracker, Inc.

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It does, and it continues to. You started getting into the pricing discussions and I'll just link them because it's coming. What enables us to – we're always going to try to be price competitive. We can design our core product at a level that we think competes in all regions, all conditions [audio gap] (00:10:19) competes, but we're not going to chase the business. And we do that because our Tier 1 customers, owner developers, Tier 1 EPCs understand this is a 30-year asset. A 30-year asset generates energy over the 30 years. It's the spine of the energy project. And because of that, it's not just about the landed cost, the CapEx mentality of the project. It's about the cost per watt over the life of the project. And with those Tier 1s, they absolutely appreciate that. That's the economics.

And the last follow-on with your question is 80% of our revenue comes from repeat customers. Tier 1 customers are those repeat customers. That is a circle that enables itself as long as you execute.

And the only – the last comment on pricing is there is the ability for a particular project for us to ramp up pricing and maybe get a little more margin above our mid-20 gross margin which we're happy with. But that may jeopardize the next project and the next project after that. And so that's why our strategy is continuing relationships, repeat customers and execute.

Q

I'm going to dive into the pricing topic a bit more in detail in a bit, but I'm just to round out the kind of demand, geo discussion. So, a lot of the tracker companies across the world have a sort of concentrated beachhead position, if you will, in a specific region. You have couple players who are good in Europe, but then don't show up in the US. You have a few players maybe that do a lot in US and don't show up elsewhere. And then Asia also has that equivalent. So, you're one of the few, if not the only ones that has sort of beachhead positions across the world. How is it that you've been able to do that in places like, you mentioned Brazil, India, Australia, as well as the US, and others haven't been able to – or others may not be able to going forward as well.

David P. Bennett

Chief Financial Officer, Nextracker, Inc.

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I think there's two main thrust to that. One, we do it the old-fashioned way. We establish the sales office, boots on ground in region. It's not a quick-turn thing. It is a process that enables the relationships to get built in region. That's the first thrust. We have at Nextracker – and I do believe this is the very first differentiator Nextracker as the team. And starting with the CEO and the experience of the CEO and our President have is between them it's 70 years of experience in the industry. And across the executive team, it's on average 20 years. So, I think that's first and that enables that regional setup.

Secondly and how we were able to scale, you have to give some credit to Flex. Flex is a global manufacturer with 150,000 – maybe lower than that now, but employees across 30 countries that have enabled supply base to feed their customers at whatever lower cost scenarios they have. We learned a lot from that discipline, the regionalization of the supply base, the legal structuring of that. We were educated by how to do that. Now, we don't need that anymore because that base is set up. But those two elements drive our ability to be a global company. And I do think that differentiates us right now.

Q

And can you just – because we read the headlines of so and so tracker company is moving into a certain region or country for the first time, they just won a project. So, can you help qualify, as you think about yourselves, moving into some of these newer regions. Is it a two-year sitting process? Is it longer than that? And when you see these announcements from – I won't name the companies, but you've obviously seen them as well, European company coming to the US for the first time, like when does it really show up as traction as to whether or not they're actually having success or not? Like what sort of timeframe should you expect?

David P. Bennett

Chief Financial Officer, Nextracker, Inc.

A

So for the US specifically, it's a longer process than one would think. We're talking [audio gap] (00:14:42) regulated industry with the decision to put in the skeleton of your project to be bankable is a really significant decision. And if you think about the overall cost of the project relative to the tracker, that's a lot of risk to put on uncertain companies, not saying they won't be able to deliver. I'm saying they don't have the track record of delivering in the US, and that's a thing. And back to the team. That's a thing.

And so to get to scale in the US is a difficult thing to break through. There will be projects and different sizes of projects that they may be able to penetrate. But then you have to run a project and have a track record of that project for a year and then use that as a reference. Like I said, in India that we have that enables you to get the

next bigger project and then break into the Tier 1 customer base is something that will not happen overnight, will not happen over a quarter and unlikely that it happens over a year.

Q

Understood. It's a good segue for what's become kind of a hot topic even at this conference, I would say, just around competition and pricing in the tracker market. And maybe starting off again with some of these headlines around so and so tracker company building new capacity, you start to tally up all the numbers, including the ones you guys have disclosed, and it seems like the overall gigawatts of supply in trackers will far exceed kind of the annual installations targets, whether it's EIA or other market pundits that are out there. So, just how is that not going to create an oversupply situation where everyone is sort of a loser?

David P. Bennett

Chief Financial Officer, Nextracker, Inc.

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Let me start by saying what our CEO has said in his [indiscernible] (00:16:43) years of experience, the one thing that he's missed. And that is they've underestimated on growth and capacity requirements. That's from our leader. The point about the capacity is this isn't – there isn't a significant cost of the capacity. So, we are always going to want to be in a position that allows you to execute. And capacity considerations may be a little bit lumpy, so you may need that max capacity for a quarter and then may not need it on – in the next quarter depending on demand and timing of order.

So, that's kind of how we've approached it. Now, down the road, we would look to potentially being an exporter from US capacity, we could do that. That's not in our current situation, but excess capacity can always be enabled if the Section 45X is there and available.

But the other thing is, the growth that we've seen and the signing of the contracts is specifically the VCAs. Those bundled projects into our program. The purpose behind those is to lock in capacity. That's the purpose. It's not a quantity discount. It's locking in capacity across multiple projects. And so to do that, you have to – and a lot of our competitors are doing it as well, have to be in a position to say we've got the capacity to enable that growth.

Q

And so now the pricing question.

David P. Bennett

Chief Financial Officer, Nextracker, Inc.

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Yeah.

Q

Does this impact pricing? Are you seeing it either in new bookings, new discussions, just sort of some of these newer entrants that seem to be entering. We'll start with the US and then we will go to Rest of the World afterwards. But what exactly is happening in your view on the pricing side?

David P. Bennett

Chief Financial Officer, Nextracker, Inc.

A

We've seen some pricing pressure, we've seen incremental pricing pressure, but it's not new. Pricing pressure is there. It's been there for a long time. There is a new entrant in the market and we're very aware of that. We don't walk blind into this. We wake up with anxiety, just like all responsible companies do. And we'll have a response to that. But again, we're not selling to just the landed cost. We're selling to levelized cost of energy over the project. So, what we're really focused on is developing innovation that enhances the productivity of the tracker and gets more energy that enables a lower LCOE. That's how we would respond to pricing is, don't worry about if we're slightly higher on a landed cost, which we think we can be competitive across that. It's not for us about that. It's about lower levelized cost of energy across the 20- to 30-year asset that then gets priced on a present value. That's one. Two, it's having software, it's having innovation, it's using that innovation not only to have better products and we've rolled out some new products that enhance energy production. It's about innovating the cost structure, the packaging, the installation, the maintenance, which is a huge thing about a 30-year asset project. It's about innovating across that. And we think we've got the best innovation. That's our response to pricing. You've seen pricing be relatively consistent. In all markets, pricing is going to be competitive and we welcome that and that's healthy for the market.

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I mean, with that strategy, would you say it resonates better with certain subset of customers versus others? Can you kind of just walk us...

[indiscernible] (00:20:37)

David P. Bennett

Chief Financial Officer, Nextracker, Inc.

A

Well, it's back to the Tier 1 customers is, again, we're more successful selling to a customer that understands the LCOE. And we will lose more when we're not in that arena. Doesn't mean that we don't lose once in a while on with the Tier 1s on a pricing situation. Maybe there's an EPC with a budget that that – what we won't do though is chase it. With the growth we just talked about and third party 26% CAGR, we're going to be disciplined with our pricing and we're going to be very focused on innovating our cost-downs and manage. And if we can support a price reduction and still maintain margin, we're all in. But to the extent we cannot, we won't.

Q

So with all that in mind, I mean, the pricing discussion naturally evolves into what you just talked about the margin discussion. And so, I'll just ask it point blank is there seems to be a view circulating that maybe tracker companies are overearning or nearing peak margins. I know we've historically seen a lot of sort of 20% type gross margins, a lot of companies are now putting up mid-20% gross margins. It sounds like there is a path to get even higher for you guys. So, maybe just level set as to where you are margin wise and what some of the levers are either up or down from here that could drive a difference?

David P. Bennett

Chief Financial Officer, Nextracker, Inc.

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Sure. Yeah. So, we've printed the first half of our year through our fiscal 2024 into March 31, and we raised our guidance at that time to a full-year expectation of mid-20s gross margin. So, we have this quarter, December

quarter that just ended and the March quarter [indiscernible] (00:22:23) we're very confident with our guidance, we think we'll maintain the mid-20 gross margins.

Now looking past that, obviously I am a public company and I'm in a dark period, but I'll try to give you color is, it's not our goal that those would go down. There is no public company that's going to not try to maintain their margin profile and utilize all the tools that we have in our toolbox to get there. And I already alluded to those. That's the revenue top line up and that's the cost down that maintains those items. So, our global footprint that allows us to pivot across that supply base more specifically to the Rest of the World landscape.

But it's all of those that come together. It's software, it's everything that gets sticky, it's customer base. All of those things allow us with a growth projection. And that's really critical, right? I think you'd see more pricing competitiveness [audio gap] (00:23:28) if we didn't expect growth. So, most of these customers, especially in the US are – there is a flight-to-quality for those customers. There is a flight-to-quality for those customers is because they're locking in capacity to fund the growth that we just talked about and everyone kind of agrees to, even if there is some lower rates out there. So, we would not expect that, that goes down and that's not our goal. That's not our strategy. And then on top of that, we have the future expectation of an improvement to that from the Section 45X.

Q

Okay. Okay. Another good segue. That's kind of where I figured we wrap up the discussion, just everyone's favorite topic, IRA and policies. It's earlier in the discussion you said you're not expecting sort of this pent-up demand from the IRA to drive a lot more volume growth. So, kind of take that to mean it's not a lot embedded in your guidance. So just before we get into a couple of more nuances, what exactly have you or have you not embedded into your guidance, whether pricing wise, volume wise, just with relation to the IRA?

David P. Bennett*Chief Financial Officer, Nextracker, Inc.*

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Yes. Well, while I think the IRA has impacted incrementally some demand because projects are getting financed with the assumption of a higher ITC, that's for sure. Okay. Now go to the tracker. We haven't put anything in related to the Section 45X credit in our guidance and what I've just talked about. What we have committed. And there is – I was – there is some disparity with what's being talked about and I'll just try to simplify how we look at it.

The IRA, the Section 45X, our torque tube, our fasteners, fully expect them to comply and get the credits that are out there. We have not put those in our guidance. We do expect to go out with our fiscal 2025, so starting April 1 forward with guidance, that includes the Section 45X. Now that Section 45X guidance is going to be some we'll try to give you the amount. But the endgame is what does it do to my margin that I just print for this year? And so, if I am printing margin at mid-20s gross margin and an 18% EBITDA which is the midpoint of our guide, it will be higher than that, and that's the takeaway.

Now, how much will flow through in terms of a direct rebate, how much will be pre-priced in my costs from my vendor, both. And so that will impact my margin and it will be our responsibility to manage some of these complexities out that I won't need to go into the details because the takeaway is, I have a better margin profile and which results in better EBITDA, which results in better EPS. And we'll manage that. And we see it as a very favorable thing.

And then lastly, let's talk about, I think, one of the comments we've been talking with folks today is, do I see passing that on to the customer, the Section 45X with all these pricing pressures? That's a logical question to ask. However, let's step back and you have a normal 100-megawatt project. It's a \$100 million. It's \$1 per watt. The tracker is around \$0.10, \$0.11, \$0.12 per watt. The project is looking to get an ITC credit of \$0.30 on the dollar. That's without domestic content [audio gap] (00:27:14) \$0.30, tracker costs \$0.10, \$0.11, \$0.12. Now, the project is looking to get domestic content. That's an incremental \$0.10. That almost pays for the tracker.

Okay. So now, let's talk about numbers that are out there, not Nextracker's numbers, around \$0.015 per watt gross value of the Section 45X credit. Some of it gets shared with my vendors. Let's just use what others have thrown out there in 50/50, so half of that.

So now you're looking at a price of the tracker of \$0.11, if those are discounting that, \$0.105. So, what's important to the buyer, the ultimate buyer, \$0.005 on a dollar, we're focusing on getting the capacity that allows you to lock in your timing and your domestic content. So, I think that's kind of level set on how we're approaching it and those that have that view are understanding the financing assumptions of generating 1% more energy over 20 to 30 years pays for the tracker. So, that's why we think we can hold pricing and hold our margins.

Q

Just on that domestic content piece, I guess two questions. One is, we'd love to hear your crystal ball. Everyone has their own crystal ball as to when we might hear an update from IRS or Treasury on that. And then two, I mean, it almost sounds like you could potentially get additional price. Or is that table stakes because every tracker supplier is going to be able to allow their customers to get some amount of domestic content?

David P. Bennett*Chief Financial Officer, Nextracker, Inc.*

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Yeah. On the domestic content side, so we think that's like a top-down view, right? We stopped trying to put out a date in terms of when we're going to hear that. We've said it and we've been wrong too many times. But what I can say is our contracts today, especially our VCAs, do have language related to providing domestic content. We believe we will be able to provide domestic content to the levels our customers need, period. Some of our customers may not need it. They may not have US panels secured. There may be different economics. They may be looking at the PTC. They may be looking at something that's outside of the ITC. We work with each customer. Each customer has its own negotiation, own contract, and we're very confident we will be able to enable that customer to achieve whatever they need from our tracker perspective.

Q

Maybe not a fair question because every customer and negotiation is different, but a VCA that has that language on domestic content and if you say that doesn't assuming there are, are they priced differently?

David P. Bennett*Chief Financial Officer, Nextracker, Inc.*

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They are not priced differently and we would expect the same margin. Now, some may have caveats for uncertainties. But to that they may have – VCAs may have caveats related to some uncertainties that an EPC contract that doesn't have, i.e., steel cost, right? If you're locking in 20 projects, 10 are named and with timing, so

the 10 are in our backlog with deposits. Those 10 may have a time line. We're not going to put ourselves at risk with a steel purchase that far out, nor would our customers want to do that because it goes both ways.

Q

Sure.

David P. Bennett

Chief Financial Officer, Nextracker, Inc.

A

So, there is language like that that does impact pricing within a range, which is why they were going to be able to maintain the margin profile that [audio gap] (00:31:04)

Q

We're starting to come up on time and this could be a 30-minute discussion on its own. But since I have CFO on the stage, I need to ask a CFO question. So, the Section 45X rules came out a few weeks ago. I think it clarified a lot. Obviously, it's not the final ruling. But there's still a ton of nuances as you kind of alluded to earlier. The bottom line is earnings are going to go up depending on what metric you're looking at. But as a CFO, what's your current interpretation of it? And then what would be sort of your ideal framework to be able to articulate that into the model for the financial community?

David P. Bennett

Chief Financial Officer, Nextracker, Inc.

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Yeah. So, thank you for the CFO question. The clarification that happened is helpful. It didn't change our bookings profile, we're booking before and after. It does provide some flexibility. So, some – so CFOs like the guidance that came out, because it did introduce transferability into the equation which will loosen it up. And not just from a pricing perspective, it loosens it up from a working capital perspective and cash flow perspective, which all CFOs appreciate. So, that's going to be helpful.

In terms of how we're approaching it with our strategy, and we're going to evolve further this, can I take the entire credit from my vendor, it appears that I may be able to get certified to take the credit. We're going to look at that. We're also going to potentially look at what happens if it's – I think some have talked about can you be a producer and all that. That's not really our focus today. Our focus today is to get lower cost of material through an incentive that is kind of complicated. We want to get it into a run rate net PO from a vendor that's low, that provides better gross margins and EBITDA that I can speak to in a very clear and understandable way. That's our goal.

And the timing of that is going to be somewhat transitional for our current fiscal year. We do expect there'll be a cumulative catchup. We expect that cumulative catchup to be coming soon. I can't tell you exactly when because I'm still in a dark period. But our Q4, which is the March quarter and the June quarter, it's reasonable to expect there'll be a cumulative catchup. What we also want to provide is in our fiscal 2025, so calendar 2024-plus quarter. Guidance that allows you all to understand. All right, here is the margin benefit resulting from Section 45X because that is going to be our prior year and our forecast year. And you're going to be able to see it and we're going to be able to say that is the net impact of it. Paying for price competitiveness, paying for innovation, paying for all the things that we're going to pay for and invest in so we can continue to maintain our moat and win. So that's the goal. And it doesn't need to be overly complicated, although the standard is and that's how we're approaching it.



So, just to kind of clarify a little bit the mechanics of if your goal is to lower the cost of material vis-a-vis the Section 45X credit, would that be you not being a producer, you not transferring your credit, but basically a bilateral agreement with suppliers saying, give me a better price, you book in lower COGS and Section 45X directly going up...

[indiscernible] (00:34:51)

David P. Bennett

Chief Financial Officer, Nextracker, Inc.



That's where it is today – and I am seeing this thing go to zero, so I'm going to go quickly. That's where it is today and that's what I am prepared to talk to you about today. There are certain interpretations that may impact economics, that may – you sell for solar cell credit, but they own the credit, my vendors own the credit. So, there's a little bit of difference there. They had to finance that. They took slight discount which looks like a good deal like a 4% discount. The good thing about being a CFO is there is another element here and there is the certain financing element, too.

Here's what I think. I have multiple vendors that I may be able to devise different scenarios based on the vendor economics. If the vendor has a big balance sheet, they may choose to keep the credit and give me the lowest net cost of my equipment. Now, let's say it's a vendor with a not so strong balance sheet, I may need to step in and get the credit from them and pay them gross, but I will get the financing then. So, it's an equation that has to be evaluated on a contract by contract basis across my vendor base.

Unverified Participant

All right. That's great. I appreciate all the color. We're going to wrap up on that note. Want to thank Dave for joining us. Thank you, everyone, for listening in and we'll call that a wrap. Thanks, everyone.

David P. Bennett

Chief Financial Officer, Nextracker, Inc.

Thank you.

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