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Torrid Holdings, Inc. (CURV)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to Torrid Holdings' Second Quarter Fiscal 2025 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] Please note that this conference is being recorded.

It is now my pleasure to pass it over to Chinwe Abaelu. Thank you. You may begin.

Chinwe Abaelu

Chief Accounting Officer & Senior Vice President, Torrid Holdings, Inc.

Good afternoon, everyone, and thank you for joining Torrid's call today to discuss our financial results for the second quarter of fiscal 2025, which we released this afternoon and can be found on our website at investors.torrid.com. With me on the call today are Lisa Harper, Chief Executive of Officer Torrid; Paula Dempsey, Chief Financial Officer. Ashlee Wheeler, our Chief Strategy and Planning Officer, is also present and will be participating in the Q&A session.

Before we get started, I would like to remind you of the company's safe harbor language, which I'm sure you're familiar with. Management may make forward-looking statements including guidance and underlying assumptions. Forward-looking statements may include but are not limited to statements containing the words expect, believe, plan, anticipate, will, may, should, estimate, and other words and terms of similar meaning.

All forward-looking statements are based on current expectations and assumptions as of today, September 4, 2025. These statements are subject to risks and uncertainties that could cause actual results to differ materially. For further discussion of risks related to our business, see our filings with the SEC.

With that, I'll turn it over to Lisa.

Lisa M. Harper

Chief Executive Officer & Director, Torrid Holdings, Inc.

Thanks, Chinwe. Hello, everyone, and thank you for joining us. Today, I'll review our second quarter performance and provide an update on our strategic initiatives, including the enhancement of our product assortment, driving customer growth, and executing on our store optimization plan. We are currently executing our strategic plan. Our five new sub-brands are resonating with the customers and will represent 25% to 30% of our assortment next year. We're on track for meaningful cost savings in fiscal 2026 as we execute our store optimization plan by closing up to 180 stores this year, reallocating our resources to respond to our customers' shopping preference.

We believe this strategic shift, combined with continued inventory productivity, will deliver a substantive increase in free cash in 2026, as well as delivering approximately 150 to 250 basis points of adjusted EBITDA margin expansion. That margin expansion is net of planned incremental marketing investments. We plan to utilize the growing free cash flow to reduce debt and repurchase shares, which we believe positions us to deliver stronger performance and create long-term shareholder value.

Let's go over our second quarter results. We delivered net sales of \$263 million and EBITDA of \$21.5 million, in line with our expectations. Our comp sales were down 6.9% for the quarter due in part to headwinds related to restructuring our footwear business and the movement of our model search [ph] activation (00:03:37) from Q2 to Q3. We experienced strong demand during our semi-annual sale event in June, with softer holiday peaks of Memorial Day and 4th of July, which led us to be more promotional than we had anticipated to drive conversion.

We continue to see customer sensitivity and value orientation, given the current environment. During the quarter, we saw strength in bottoms, both denim and non-denim, dresses, and swim, which were offset by tops due to the softness in graphic tees and an over penetration of cropped tops. Having said that, we are seeing green shoots in our tops category as we address short-term product misses. We expect graphics to continue to underperform for the balance of the year, with improvements in late Q4 and into 2026.

Now, turning back to our strategic initiatives. We remain incredibly pleased with the performance of our sub-brands and expect the penetration to more than double in the third quarter, and next year will reach 25% to 30% of our total assortment. This growth will support adjusted EBITDA margin expansion in 2026 to its higher margin profile due to limited promotions and higher full price sell-throughs. These lifestyle concepts enable us to offer unique collections which provide more newness and excitement while also catering to a broader customer base.

The most recent Lovesick launch exemplifies this strategy, targeting younger demographics with strong engagement rates. Sub-brands generate a halo effect, driving attachment rates to core categories like denim pants, and intimate apparel, while supporting customer reactivation through targeted community and influencer marketing. We're scaling this strategy through increased delivery frequency, enhanced newness, and additional sub-brand launches.

On the marketing front, we are bringing back our popular model search event with a new look and feel. This year's event will be primarily digital and will kick off on September 9. Historically, our model search has been a very strong customer activation event for us, and we are optimistic that the new format will enable us to reach an even broader audience. We also began to scale our digital marketing efforts toward awareness and new customer acquisition with a diversified approach of paid media, organic social and a more robust influencer marketing campaign.

During the quarter, we launched A Torrid Summer, an influencer-based campaign. These event-based activations were held across the country in key metropolitan areas, creating millions of impressions. Each brand-building

moment drove customer engagement and social relevance. We will continue to scale these types of activations into 2026, prioritizing customer file growth through strategic digital marketing efforts, continued influencer marketing campaigns, and organic social media initiatives.

We are investing behind these initiatives to increase brand awareness and consideration through top-of-funnel marketing and have made a strategic decision to increase our digital marketing spend for the balance of this year above the original budget by approximately \$5 million, yielding a total investment of approximately 6% in 2025 versus the 5% previously budgeted. Based on the results of this increase, we will make the determination of the total increased investment for 2026.

Next, our channel optimization strategy represents a decisive response to evolving customer preferences. With digital sales approaching 70% of total demand, we are executing a comprehensive realignment that capitalizes on this fundamental shift while strengthening customer relationships across all touch points. To that end, we have been closely tracking customer retention throughout the course of our store closures, and the results remain in line with our objective. Our target is to retain at least 60% of customers consistent with historical performance following closures.

Encouragingly, retention trends from the 2025 closures are outperforming fiscal 2024, with a greater share of customers migrating to our online platform. This reinforces that our most loyal customers are increasingly channel-agnostic and continue to engage with us regardless of format. These outcomes are supported by the more robust retention strategy we introduced this year, which incorporates a multifaceted approach with proactive customer outreach before, during, and after a store closure.

Building on this foundation, during the first half of the year, we executed the closure of 59 underproductive stores, in line with our plans. We remain on track to close approximately 120 additional stores in the back half of the year, bringing total closures to about 180. These decisions are deliberate and strategic, strengthening the overall fleet and redirecting demand to higher-return channels. Importantly, when paired with our enhanced retention playbook, this optimization demonstrates that we can both rationalize our physical footprint and preserve, if not strengthen, long-term customer relationships.

As I mentioned, beginning in 2026, we will redeploy a portion of the fixed cost savings from the closure of unproductive stores into acquisition-focused marketing efforts to grow the customer file size. A portion will go toward increased digital marketing efforts and a portion toward more robust organic social influencer marketing. And to reiterate, we expect to realize 150 to 250 basis points of adjusted EBITDA margin expansion in 2026, and a substantive increase in free cash which will be deployed to retire debt and buy back stock.

We currently have an active \$100 million authorization for share repurchase, of which we have approximately \$45 million remaining. We also intend to deploy free cash flow to further reduce our debt, fortifying our balance sheet for long-term financial flexibility. At the same time, we remain committed to investing selectively [ph] toward an initiative (00:10:05) that drive profitable growth and improve customer retention, ensuring that our capital decisions not only provide immediate returns, but also strengthen the foundation for future growth.

In closing, I want to thank all of our talented team members for their unwavering dedication and support. We remain confident in our strategic direction, and the progress we're making positions us to drive improved business performance and meaningful shareholder value creation over time. With that, I'll turn it over to Paula.

Paula Dempsey

Chief Financial Officer, Torrid Holdings, Inc.

Thank you, Lisa. Good afternoon, everyone, and thank you for joining us today. I'll begin with a review of our second quarter financial performance, and then provide our outlook and guidance for fiscal 2025. Our second quarter results were in line with our expectations for both net sales and adjusted EBITDA. While sales trends fluctuated throughout the quarter, we remained focused on disciplined expense management and execution of our store optimization strategy. Net sales for the second quarter were \$262.8 million, compared to \$284.6 million in the prior year. Comparable sales declined 6.9%. Gross profit was \$93.5 million compared to \$110.3 million last year. Gross margin was 35.6%, compared to 38.7% a year ago.

SG&A was favorable by \$6.3 million, resulting in \$70.5 million in Q2, compared to \$76.8 million in the prior year. As a percentage of net sales, SG&A leveraged 20 basis points to 26.8% versus the last year. The year-over-year favorability in SG&A continues to be primarily driven by our store optimization efforts, as well as prioritization of company-wide projects. We strategically increased our marketing investments by 30 basis points in Q2 compared to last year to support the rollout of new sub-brands. We also invested in [ph] creative (00:12:11) brand-building campaigns to attract new and younger customers.

Net income was \$1.6 million or \$0.02 per share, compared to a net income of \$8.3 million or \$0.08 per share in the prior year quarter. Adjusted EBITDA was \$21.5 million, representing an 8.2% adjusted EBITDA margin versus \$34.6 million and 12.2% adjusted EBITDA margin last year. We ended the quarter with cash and cash equivalents of \$21.5 million compared to \$53.9 million in the prior year. As of August 2, we had \$7.9 million drawn on our revolving credit facility. During the quarter, we repurchased approximately 6 million shares of our common stock at \$3.50 per share, utilizing \$20 million of the company's cash. The share repurchase was executed simultaneously with the secondary offering in June. Total liquidity, including available borrowing capacity, remains strong at \$111.7 million.

Additionally, we continued to strengthen our balance sheet by reducing total debt from the prior year by \$8.2 million to \$288.4 million. And at the end of the quarter, we proactively extended our ABL agreement from 2026 to 2030. Inventory totaled \$130.2 million, which is approximately 1% higher than the prior year, primarily due to in-transit timing. We're managing inventory with discipline and anticipate some temporary fluctuations throughout the year. However, we expect year end comparable inventory to be down in the mid- to high-single-digit range, with total inventory declining more significantly due to store closures.

Turning to our store optimization strategy. We closed 57 stores during the second quarter and are very pleased to see retention from these closures performing at our target rate, which is consistent with historical levels and highlighting both the strength of our brand and the loyalty of our customers. We remain on track to close up to 180 stores in fiscal 2025, with the majority of the remaining 120 closures expected towards the end of the year to align with these expirations, minimizing the incremental exit costs. The stores identified for closure are underperformers averaging roughly \$350,000 in annual sales and located in less attractive markets.

We expect the sales impact to be minimal as we plan to offset closures through targeted marketing investments and stronger customer retention strategy. We believe our optimization efforts will generate 150 to 250 basis points of adjusted EBITDA margin expansion, net of additional marketing investments beginning in fiscal 2026 and positioning us for sustained profitability. At the same time, our capital allocation priorities in 2026 will remain disciplined, strategic, and balanced, focused on enhancing shareholder value while maintaining financial flexibility. We intend to deploy cash flow towards share repurchases under our existing \$100 million share repurchase program, underscoring our confidence in the inherent value of the company and our ability to deliver attractive long-term returns, while also reducing debt to further strengthen the balance sheet and support long-term growth.

Turning to our guidance for fiscal 2025. We're updating our revenue outlook to reflect the current macro environment, which we believe is driving variability in sales trends in our business. We now expect full-year net sales in the range of \$1.015 billion to \$1.030 billion. For the third quarter, we expect net sales of between \$235 million and \$245 million. Given the changes in tariff rates since our last call, we anticipate up to \$10 million in incremental headwinds to margins. We continue to proactively manage country of [ph] origin (00:16:31) sourcing to minimize impact on our business, as well as negotiating lower costs from our vendors, creating operational efficiencies, and selectively taking price increases where we see value gap in the market.

Our total tariff impact for fiscal 2025 is expected to be approximately \$50 million, and we have mitigated 80% of that cost. We now expect adjusted EBITDA in the range of \$80 million to \$90 million for the full year, which incorporates the higher tariffs announced in July and incremental marketing investments. As Lisa mentioned, we're investing an incremental \$5 million in marketing in the second half of the year, taking marketing as a percentage of net sales to approximately 6%. For the third quarter, we expect adjusted EBITDA to be between \$16 million and \$21 million. We still anticipate capital expenditures to be in the range of \$10 million to \$15 million, focused on digital experience, store refreshes, and fulfillment capabilities to support our omni-channel growth strategy.

In closing, we're making transformational changes to our business as we capitalize on lease expirations to optimize the size and locations of our store fleet. These actions will enable us to operate more efficiently, deliver consistent long-term growth and profitability, and feel continued investment in our fast-growing digital channel, a critical engine of our customer engagement and future growth. We're confident that the steps we're taking to-date position us to create meaningful value for our customers, our associates, and our shareholders.

Now, we will open the call to your questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. With that, we will now be conducting a question-and-answer session. [Operator Instructions] And our first question comes from the line of Corey Tarlowe with Jefferies. Please proceed with your question.

Corey Tarlowe

Analyst, Jefferies LLC

Great. Thanks. Lisa, how would you characterize the health of your customer and the appetite for newness that you've infused into the business? And then, is there a way to put context around the lift that you're seeing from some of the sub-brands in stores and what that's expected to look like over the remainder of the year?

Lisa M. Harper

Chief Executive Officer & Director, Torrid Holdings, Inc.

Sure. Thanks, Corey. I would say that our – the health of our existing customer is very strong. We see continued improvement in terms of, especially our top tier customers, of their engagement and the transactions associated with that. I've – we made an assessment, I'd say, 18 months ago or so, maybe a little bit longer, that we needed to reinvigorate the quality and innovation and relevancy of our product. And we've worked very hard over that time period and we're very pleased with the customer reaction to the launch of those sub-brands and the halo that it gives some of our core businesses like denim and non-denim bottoms and intimates. So, we're really pleased with that.

We launched our very first sub-brands in – right after Christmas last year, December 27, 2024, and we didn't have an robust delivery of sub-brands in the first half of the year after those initial launches, primarily because we wanted to see if they were going to work before we really chased into them. So, the launches that – based on the success of the launches in the first part of the year, we have chased into the back part of the year. And all of the sub-brands, except for Lovesick, will deliver on a monthly basis from here till the end – and on the go forward.

As that happens, we would expect sub-brands to be about a total of 10% of our total business next year, and as we – I mean, this year. And as we annualize all of that, we expect it to be about 25% to 30% of the business next year. We are bringing new customers to the brand and, in some cases, younger customers to the brand through these launches. Lovesick's a little early in terms of assessing the customer impact, the specific customer impact in terms of new or demographic or age and that – but we are pleased with how all of these are launching.

I would say, are our goals were about – were focused on frequency of our existing customers and new customers in this business, and we're achieving those. The reason that we made a determination to increase our marketing spend for the back half of this year, as it aligns with the more aggressive store closure schedule that we've discussed previously, we think it's prudent and strategically important for us not to wait until next year to really invest in this awareness and consideration in top of funnel.

We feel confident with the sub-brand and the core business and assortment improvements that we've seen, and we feel like it's the right time to really press that with a broader range of customers, as well as focus in on the retention efforts that we've talked about as we're closing the stores. So, all of that rolls into, we think, a very responsible and exciting strategic initiative to drive both frequency of our existing customers, reactivation of customers who might have not shopped with us for a while, and bringing new customers and a broader range of customers to the brand. So, very, very happy about that.

I would say, broadly, aside from the excitement we see about – with sub-brands, we do see choppiness with our consumer. We see it's – our consumers have a household income of around \$95,000 to \$100,000. And we know that based on our conversations with our sales associates and stores, that there is concern in terms of their discretionary spending on clothing. We think we have enough excitement built into the business to help offset some of those macro pressures. And as I've said, we are very happy with how they're engaging with the – with both the new brands, as well as the categories that receive the halo treat – effects in conjunction with that.

Did I answer everything, Corey?

Corey Tarlowe

Analyst, Jefferies LLC

Q

I think you did. I did – I just wanted to follow up – and thank you for that color, Lisa. I just wanted to follow up on the outlook for the year. Is there a way you could put it into context the EBITDA outlook change, and I know you're investing more in marketing, but how are you thinking about the other aspects around promotions and investments in the business as we look throughout the remainder of this year, and maybe what stays in the business or what comes out, I mean, as you think about what next year could look like as well? Thank you so much.

Lisa M. Harper

Chief Executive Officer & Director, Torrid Holdings, Inc.

A

Yeah. Yeah. There are a few things, obviously, that have impacted us. We've talked about, obviously, the largest being tariffs. And so, we think the total hit for tariffs this year is accumulatively about \$50 million. We've offset

80% of that and offset \$40 million of that impact. And essentially, the impact of the EBITDA for the balance of the year really just presumes that we don't have more expenses to cut or more margins to drive associated with that last \$10 million of tariff impact.

We've done a lot on the sourcing side, and we'll continue to move on the sourcing side to offset that as we move forward. But I think, primarily, the impact is that hit of tariff that is above and beyond what we had contemplated in our previous communications, as well as – well, why don't I let Ashlee talk about some of the promotional efforts and things like that?

Ashlee Wheeler

Chief Strategy & Planning Officer, Torrid Holdings, Inc.

Yeah. Hi, Corey. So, from a promotional standpoint, as Lisa noted, we have continued to see some choppiness with the customer. So, we've responded to that with some additional promotional activity that wasn't originally contemplated to drive conversion efforts. We expect that to continue throughout the balance of the year in this environment. And then, beyond the \$10 million associated with tariffs that Lisa mentioned, the incremental marketing investment that at this point we're really positioning more upper funnel awareness and consideration focus to drive the type of behavior and set us up for a 2026 growth to support sub-brand acceleration.

Corey Tarlowe

Analyst, Jefferies LLC

Great. Thank you very much. Best of luck.

Ashlee Wheeler

Chief Strategy & Planning Officer, Torrid Holdings, Inc.

Thanks, Corey.

Operator: Thank you. And our next question comes from the line of Brooke Roach with Goldman Sachs. Please proceed with your question.

Savannah Sommer

Analyst, Goldman Sachs & Co. LLC

Hi. This is Savannah Sommer on for Brooke Roach. Thank you so much for taking our question. There was a lot of ground covered on the call, and it's really great to see the continued momentum with the sub-brands. You've discussed [ph] planning in (00:26:30) the sub-brands to be 25% to 30% of the assortment next year. I was curious what you expect that mix to go to over time. How do you think about the margin opportunity and the associated timeline there as the brands continue to scale? Thank you.

Lisa M. Harper

Chief Executive Officer & Director, Torrid Holdings, Inc.

Are you asking scaling post 2026?

Savannah Sommer

Analyst, Goldman Sachs & Co. LLC

Yes, that's correct.

Lisa M. Harper

Chief Executive Officer & Director, Torrid Holdings, Inc.

A

Okay. So, we've discussed before and we're still very happy with the margin profile that we're seeing in sub-brands, and it's delivering hundreds of basis points higher in product margins than the bulk of the business. So – and we're seeing that consistently perform as we roll out more and more deliveries of these. I think there are a few ways that we contemplate expansion past 2026 in this business, whether they're – and we'll test some of these ideas next year, whether there are stores that we convert to more of a focus on sub-brands.

We've refixed about 135 stores so far this year and we'll refix the balance of the stores by the beginning of next year. That allows – that refixing allows a lot more flexibility in the existing stores. We already deliver for or have delivered three and are adding a fourth sub-brands that are – that will roll out to stores – that have rolled out to stores and will continue rolling out to stores through the back half of the year. Some of our brands go up to over 200 stores in terms of their distribution. So, we are learning a lot this year in terms of what those expanded assortments provide to the store experience for the customer.

There are things that we will test next year, the idea of pop-ups, the idea of standalones for some of these brands. Our two largest brands at this point are Belle Isle, which is the more preppy kind of East Coast mentality brand; and then Festi, which is the more boho, free-spirited type of brand. And those are two brands that would be candidates for pop-ups or a more expansive store assortment. And then, we'll learn and keep you guys apprised of that as we move forward.

The idea was, as part of the incubation of these new concepts, first of all, as to provide an internal marketplace so that our – we don't become dated in terms of traditional plus-size mindset or plus-size clothes. The zeitgeist of this customer very much more focused on fashion as they move forward. We stuck with fit too long as a company, where fit is essentially table stakes, quality is table stakes. And they really are very, very hungry for a broader fashion presentation. So, we think we've set ourselves up well, we set our customers up well to be able to provide many different lifestyle choices for them.

And these assortments, I think the teams have done a tremendous job in being able to develop these and roll them out. And it's been a Herculean effort to really bring this much new product to the customer, as well as updating the core product in the Torrid line. So, I think there's a chance for further expansion as we move forward into 2027. As a total penetration, I think there's some chances for pop-ups and standalones, and then the potential for converting some of our stores to have a higher percentage of sub-brands in their total assortment mix.

Savannah Sommer

Analyst, Goldman Sachs & Co. LLC

Q

Thanks so much for the color. I'll pass it on.

Operator: Thank you. And our next question comes from the line of Janine Stichter with BTIG. Please proceed with your question.

Ethan Saghi

Analyst, BTIG LLC

Q

Hi, everyone. You've got Ethan Saghi on for Janine. Thanks for taking our questions. So, to start, could you provide any color on how the business performed exiting Q2 through August?

Paula Dempsey

Chief Financial Officer, Torrid Holdings, Inc.

A

Yeah. [indiscernible] (00:30:41) So, I would say, based on the results of Q2, what we saw was a little bit softer performance throughout peak holiday period. So, we didn't see the acceleration that we would normally see over, say, Memorial Day or 4th of July. But outside of that, the business performed aligned with our expectations. We had a really, really strong June semi-annual sale event that we were very pleased with. The consumer, as we've mentioned, remains a little bit value-oriented, more so in this environment, and so we've responded to that with promotional activity to drive conversion efforts. And that's remained fairly consistent throughout August as well so far.

Ethan Saghi

Analyst, BTIG LLC

Q

Got it. That's super helpful. And then, just a follow up for me. So, have you seen any customer pushback following your price increases? And then, just could you elaborate on how you're thinking about additional price increases for the back half of the year?

Lisa M. Harper

Chief Executive Officer & Director, Torrid Holdings, Inc.

A

Our price increases related to tariffs are de minimis and very product-specific, it's not an across-the-board price increase. So, we haven't had specific pushback related to price increases related to tariffs. We have, however, and have always had and consistently had, the number one complaint of our customers is pricing. And I'm not sure that we're the only retailer that experiences that. I had announced a couple, I don't know, maybe a year and a half ago, really focus on opening price point product. And we did launch that, however, we lost – I have to be honest, we lost our way a little bit as tariffs kind of came on board and we were managing a very, very different problem in terms of production and pricing, cost of goods, supply chain. While I feel like we've done – the team has done a tremendous job in managing that, we still recognize that we have an opportunity in opening price point product.

And to that point, as we move into next year, we anticipate about 25% of our assortment – 25% of our sales in our apparel business will be opening price point. And that is a tremendous undertaking with merchandising, design and product development, ensuring that we can uphold our quality but bring a better value to the marketplace for the customer. So, if you think about kind of the range of our business next year, I think about 25% to 30% in sub-brands, about 25% in OPP, and the balance is more of the core business. And that's how we're structuring it as we move forward. I think that there's an enormous opportunity for us [ph] as what asset (00:33:25) – probably as valuable as the product innovation that we've brought to the marketplace, and very excited about bringing that to the customer as we go into first quarter of next year.

Ethan Saghi

Analyst, BTIG LLC

Q

Great. Thank you so much. That was super helpful. I'll pass it on.

Lisa M. Harper

Chief Executive Officer & Director, Torrid Holdings, Inc.

A

Thank you.

Operator: Thank you. And with that, there are no further questions at this time, I would like to pass it back to Lisa Harper for closing remarks.

Lisa M. Harper

Chief Executive Officer & Director, Torrid Holdings, Inc.

Great. Thank you, everyone, for joining us today. We look forward to keeping you in the loop on our advancement of our strategic initiatives. Thanks. Look forward to talking to you next quarter.

Operator: Thank you. And with that, ladies and gentlemen, this does conclude today's teleconference. We thank you for your participation. You may disconnect and have a wonderful day.

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