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fuboTV Inc. NYSE:FUBO

Earnings Call

Friday, August 4, 2023 1:30 PM GMT

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Call Participants

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CFO & Principal Accounting Officer

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Laura Anne Martin

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Nicholas Todd Zangler

Stephens Inc., Research Division

Unknown Analyst

Presentation

Operator

Thank you for standing by, and welcome to the Fubo Q2 2023 Earnings Conference Call. [Operator Instructions] Thank you. I will now hand today's call over to Alison Sternberg. Please go ahead.

Alison Sternberg

Senior Vice President of Investor Relations

Thank you for joining us to discuss Fubo's second quarter 2023. With me today is David Gandler, Co-Founder and CEO of Fubo; and John Janedis, CFO of Fubo. Full details of our results and additional management commentary are available in our earnings release and letter to shareholders can be found on the Investor Relations section of our website at ir.fubo.tv.

Before we begin, let me quickly review the format of today's presentation. David is going to start with some brief remarks on the quarter and full year and Fubo strategy, and John will cover the financials and guidance. Then we will turn the call over to the analysts for Q&A.

I would like to remind everyone that the following discussion may contain forward-looking statements within the meaning of the federal securities laws, including, but not limited to, statements regarding our financial condition, anticipated financial performance, business strategy and plans and expectations regarding profitability. These forward-looking statements are subject to certain risks, uncertainties and assumptions.

Important factors that could cause actual results to differ materially from forward-looking statements include those discussed in our filings with the SEC. Except as otherwise noted, the results and guidance we are presenting today are on a continuing operations base, excluding the historical results of our former gaming segment, which are accounted for as discontinued operations.

During the call, we may also refer to certain non-GAAP financial measures. Reconciliations of these non-GAAP measures to the most directly comparable GAAP measures are also available in our Q2 2023 earnings shareholder letter, which is available on our website at ir.fubo.tv.

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

David Gandler

Co-Founder, CEO & Director

Thank you, Alison, and good morning, everyone. Thank you for joining us today to discuss Fubo's second quarter 2023 results.

In the second quarter, Fubo exceeded targets for revenue and subscribers in North America, delivering \$305 million in total revenue, up 41% year-over-year and 1,167,000 paid subscribers, up 23% year-over-year. We are very confident our momentum will continue in the back half of the year, and therefore, we have raised our previously stated full year guidance in North America.

Turning to our ad sales business. Fubo posted North America ad revenue of \$22.8 million in the second quarter. That's up 5% year-over-year despite a challenging ad market in the first half of 2023. We are very encouraged as green shoots in July indicate an advertising rebound and a sizable ad recovery for the back half of the year.

We meaningfully reduced loss by \$41 million year-over-year and ended the quarter with \$300 million in cash, cash equivalents and restricted cash. We are confident that this provides us with sufficient liquidity to fund our operating plan as we target positive free cash flow in 2025. While there appears to be improvement in the ad market, the media and streaming industry is as tumultuous as ever. Even with recent consolidation among streaming plus services, which we have long predicted content, fragmentation continues to be a major consumer problem, and frustrated consumers are forced to subscribe to multiple and expensive streaming services.

Fubo is benefiting from the industry upheaval as consumers seek a single app to watch all of the content they love. Fubo has maintained stability, continuing to show operating leverage while building value for shareholders. The primacy of sports and particularly, the primacy of local sports is more apparent than ever. Fubo's aggregated content offering, led by our leading local sports package remains sought after by consumers. And given our focus on live sports, we expect that Fubo will remain largely insulated from the Hollywood union strikes.

This summer marks a year since we held our first Investor Day, during which we laid out our 2025 positive free cash flow goal. Our 5-pronged approach to executing our long-term plan included driving increased leverage of our content acquisition costs, increasing the efficiency of our subscriber acquisition efforts, furthering our investments in our advertising, ad technology and ad infrastructure and acting ARPU expansion tactics designed to strengthen unit economics and maintaining our rigor around enterprise-wide cost discipline.

I am pleased to report that we are making significant progress towards achieving positive free cash flow as we meaningfully advance on each of these five initiatives. First, we continue to drive increased leverage of our content acquisition costs. As a reminder, our subscriber-related expenses significantly impacts these costs and have the greatest ability to influence our operating leverage. We have made marked progress in optimizing these costs. This is reflected in our 1,193 basis point reduction in SRE to 87% of revenue in the second quarter compared to 99% in the prior year period.

We also continuously examine and adjust our channel plans and add-on offerings to optimize consumer value while driving healthy contribution margins. Second, we continue to increase the efficiency of our subscriber acquisition efforts. For the first time ever, we landed below our target range of 1 to 1.5x first month's average revenue per user, or ARPU. Total sales and marketing as a percentage of revenue declined in the second quarter from roughly 13% to roughly 11% year-over-year.

Third, we believe our investments in our ad team, technology and infrastructure have enabled our ad sales business to remain healthy despite pressure on the market. We have successfully implemented initiatives to accelerate our direct sales business, offsetting expensive third-party programmatic costs while also optimizing our programmatic supply chain routes. As a result, we expect to increase ad ARPU on a year-over-year basis through the back of 2023 and beyond.

Fubo is the home for local sports. The ad inventory provided by our leading local sports coverage offers brands targeted reach both nationally and regionally. Our targeting capabilities also strongly positioned Fubo to leverage the upcoming political season which is expected to top \$11 billion in total ad spend across the industry in 2024.

Fourth, we continue to enact tactics designed to expand ARPU. Our progress here was demonstrated in the second quarter by a 13% year-over-year ARPU expansion to \$81.62 for our North American streaming business. This is an all-time record.

Finally, we continue to focus on maintaining rigor around our enterprise-wide cost discipline. Collectively, these initiatives helped Fubo achieve a 1,380 basis point year-over-year improvement in gross margin to 7% during the second quarter, making this the fifth consecutive quarter of gross margin expansion.

In closing, we are very encouraged by our strong second quarter results and our progress towards our long-term plan. We continue to believe Fubo is well positioned to benefit from expected streaming and advertising trends. Fubo's sports-first offering continues to meaningfully appeal to consumers and we are confident that our momentum will continue as we approach our 2025 positive cash flow goal.

I will now turn the call over to John Janedis, CFO, to discuss our financial results in greater detail. John?

John Janedis

CFO & Principal Accounting Officer

Thank you, David, and good morning, everyone. The second quarter furthers the momentum we experienced over the past few quarters, including a healthy top line and subscriber growth, resulting in

meaningful improvements across many of our KPIs and providing us with added confidence in our ability to achieve profitability.

Total revenue for the quarter increased 41% to \$312.7 million, driven by 41% revenue growth across North America and 40% revenue growth from Rest of World. This represents a 3% upside against the midpoint of our Q2 revenue guidance. We ended the second quarter with 1.167 million subscribers in North America, representing 23% growth year-over-year and over 394,000 subscribers in the Rest of World, representing 14% growth year-over-year.

On the monetization front, ARPU in North America reached \$81.62, an all-time high, while Rest of World ARPU was \$6.91. Expansion in subscribers and ARPU allowed us to exceed the midpoint of our Q2 guidance.

Turning to advertising. Despite the continued challenges many advertising businesses are facing, I am pleased with our ability to deliver \$22.8 million in advertising revenue across North America, a 5% increase versus the prior year period. And since the closing of the second quarter, we have seen a significant uptick in advertising revenue with July posting strong sequential improvement from the second quarter. There only 1/3 of the way through the third quarter, it bodes well for the second half of the year and reflects the positive impact of the strategic work we are doing to improve our performance in this area.

Importantly, we made material progress on the operational side of the business, lowering expenses and bringing added effectiveness and efficiency across a greater share of business. These efforts resulted in a 1,380 basis point improvement in gross margin to 7%. The top line growth and improvements across the income statement led to a \$40.8 million year-over-year reduction in net loss to a loss of \$54.2 million, resulting in a net loss margin improvement to negative 17.3%, favorably comparing to a negative 42.8% net loss margin in the prior year period, demonstrating that we are making meaningful progress towards our goal of becoming profitable. This led to a second quarter 2023 per share loss of \$0.19, a significant improvement compared to a loss of \$0.51 in the second quarter of 2022.

Second quarter adjusted EBITDA loss also improved to a loss of \$30.5 million compared to a loss of \$70.1 million in the second quarter of 2022 while adjusted EBITDA margin was minus 9.8%, a significant improvement from minus 31.6% in the prior year period. This resulted in an adjusted EPS loss of \$0.12, an improvement compared to an adjusted EPS loss of \$0.39 in Q2 2022.

As it relates to our balance sheet, we are confident that we continue to have the necessary liquidity to invest in the business and support our path to profitability, ending the quarter with \$299.7 million of cash, cash equivalents and restricted cash. In addition, our ongoing efforts to identify efficiencies and maximize leverage across the business resulted in a \$9 million improvement in free cash flow.

Further, as David mentioned, these results demonstrate the noteworthy progress we have made across our operating expenses, all of which have come down as a percentage of revenue and in some cases, on a dollar basis as well as we remain disciplined in our investments and deployment of cash. As we continue to grow subscribers, optimize our pricing, we expect to see continued leverage on the SRE line, which decreased from 99% to 87% of revenue in Q2 2023 versus the prior year period.

Regarding our . We are guiding to North America's third quarter 2023 subscribers of 1.33 million to 1.35 million, representing 9% year-over-year growth at the midpoint, and we expect revenue of \$272.5 million to \$277.5 million, representing 25% year-over-year growth at the midpoint.

Before moving on to full year guidance, I want to point out that our Q3 guidance reflects the typical seasonality in which the subscriber growth is highly back-end loaded, resulting in a meaningful increase in subscribers but a smaller increase in revenue, which is largely recognized in the following quarter. For the full year 2023, we are once again raising our guidance for North America and now expect full year 2023 subscribers of 1.565 million to 1.585 million, representing 9% year-over-year growth at the point and the full year 2023 revenue \$1.26 billion to \$1.28 billion, representing 29% year-over-year growth at the midpoint.

This fiscal year 2023 revenue guidance implies \$648 million of revenue at the midpoint in the second half of the year, more than \$10 million higher than as implied by our prior guidance. For Rest of World, our Q3 2023 guidance now projects 382,500 to 387,500 subscribers, representing 7% year-over-year growth at the midpoint and revenue increases to \$7.2 million to \$8.2 million, representing 34% year-over-year growth at the midpoint.

Our full year 2023 Rest of World guidance now projects 380,000 to 400,000 subscribers, representing a 7% year-over-year decline at the midpoint and revenue of \$29.4 million to \$33.4 million, representing 29% year-over-year growth at the midpoint. Note that our fiscal 2022 subscriber count was positively impacted by the 2022 World Cup.

In summary, our Q2 results provide further evidence that the operational and go-to-market initiatives we have enacted over the past few quarters are gaining momentum and transforming our business. These actions are driving improving trends, and we are confident Fubo has the foundation necessary to further grow and improve across every facet of our business and position us to deliver enhanced value to shareholders.

I would now like to open the call to questions. Operator?

Question and Answer

Operator

[Operator Instructions] Your first question is from the line of Laura Martin with Needham.

Laura Anne Martin

Needham & Company, LLC, Research Division

What excellent numbers these are. So as I think forward towards the NFL this season, if strikes continue into the fourth quarter, shouldn't we expect to see good sign-ups for the NFL that sports will be sort of the only new content on air by the December quarter?

David Gandler

Co-Founder, CEO & Director

Laura, this is David. Thanks for joining. Well, expectations are always high at Fubo. So we're obviously monitoring the strikes very closely. And putting together our plan should things continue the way they are. So as always, we're looking forward to the fall sports calendar with the beginning of seasons for the NFL, college football, many of the soccer leagues and much, much more. So we're super excited. And then we also get into the sort of towards the end of the baseball season as well. So hopefully, there will be some strong games and an excellent narrative for consumers to stay engaged with our complete lineup.

John Janedis

CFO & Principal Accounting Officer

Laura, this is John. I would add on the advertising side, I had some recent conversations with our team. And I would tell you that we are getting incremental incoming calls to place advertising against both the NFL and other sporting events for the back half of the year.

Laura Anne Martin

Needham & Company, LLC, Research Division

Right. Because there's going to be no new content. These gross margins are outstanding. At 7% gross margin, I think that might be the highest since you guys went public. My question to you is, is this being driven by structurally or are you benefiting from sort of the drama going on at the RSN? So maybe your margins are high short term, but eventually, you start -- you need to start paying for all that RSN stuff and the disruption will get sorted out in theory? So could you talk about the sustainability of the outstanding gross margins you just reported?

John Janedis

CFO & Principal Accounting Officer

Yes, sure. Laura, I'll start with that one. Yes, so you are correct. From a gross margin perspective, -- it's by far the biggest number we've had since we've been public, frankly, going back probably forever since the company was formed. I would tell you -- I wouldn't necessarily overplay, if you will, the impact from the RSNs. I would say it's really a company-wide culture in terms of focusing on growth. And so I'd say the RSN helped, I'd say a little bit. I'd say on a going forward basis, that will not be an incremental or a larger of margin going forward. I would just say it's part of the overall company focus.

Operator

Your next question is from the line of Darren Aftahi with ROTH MKM.

Darren Paul Aftahi

ROTH MKM Partners, LLC, Research Division

Nice progress here. Two, if I may. So your comments about advertising, not necessarily about 2Q, but the July commentary, I think, David, you said about green shoots and kind of confidence in the second half of

the year. Is that something that's sort of Fubo specific and progress you're making on direct? Or do you think that's more of an industry-wide phenomenon?

David Gandler

Co-Founder, CEO & Director

Yes. Darren, thank you for the question. I think that the industry basically between June and July has hit a trough. I think at Fubo, we were dealing with something that is, I would say, more specific. As you know, about 6 months ago, we set out to change the way we were doing things and DIRECT has become a greater part of the overall mix between programmatic DIRECT response and DIRECT sales.

So we're starting to see the benefits of that. We saw a little bit of that at the end of June, but it was really nice to see that it was sustained well into July with some really robust numbers, which gives us confidence that the third quarter and potentially the fourth quarter again with local sports with the NBA and the NHL starting up, I think, will allow us to continue to drive CPMs again, just given the fact that we're sports first. So we feel pretty good about it so far, and the team is performing quite well.

And the last area, I think, that we've been focused on, which I don't believe we focused on last year, any companies haven't focused on it, is really the supply chain routes. As you know, the that some of these ad tech partners take is quite significant. And so we've gone back to start reviewing our deals. Just given the high-quality inventory that we provide, we feel we should be getting much better terms than what we have been getting.

And so we're doing, I would say, a little bit of everything to get those numbers up. But again, we haven't seen this level of improvement since maybe 2020. So we're excited about that. Of course, we're cautiously optimistic and our views are based off of what we're able to see today. Obviously, if market conditions deteriorate quickly, that would change it. But as of now, we feel pretty good about third quarter ad revenue.

John Janedis

CFO & Principal Accounting Officer

And Darren, maybe I could add a couple of things in there for you. With more granularity on the direct front, what I could tell you is that on a year-over-year basis for July, we're seeing pretty dramatic growth, and we saw very dramatic growth. And then I would tell you, on top of that, for August, the money on the books, call it, 4 days in for the month is already larger than what we did for the month of July. So we feel good on that front.

Secondly, I would say the visibility that we have has improved, so call it 3Q visibility starting today versus the visibility in May is better. And then I would say just more broadly, you know this, but I want to put a bit of an explanation point on it because we have the dual-pronged tailwind up secular growth within CTV and then also subscriber growth. And I would just add that the upheaval in linear TV has given us access to talent that we maybe would not have had just a year or 2 years ago.

Darren Paul Aftahi

ROTH MKM Partners, LLC, Research Division

That's helpful. And just one more, the synthesization of costs you've kind of made over the last, call it, year. Like where are we with that? Are we closer to the ninth inning? Are we still kind of in early innings? I guess said another way, like how much more cost can you kind of strip out of the business? Or do you feel like most of that work has kind of been done?

John Janedis

CFO & Principal Accounting Officer

Yes. I would say that I think we have a significant amount of cost savings to go. From an inning, I'd say, kind of early-ish to maybe mid, but somewhere in that range. I would tell you that I'd say on a weekly basis, we go out to the teams and they come back and actually add to the existing cost savings. So I feel very, very good that we have significant to go from here over the next couple of years at least.

Operator

Your next question is from the line of Nick Zangler with Stephens.

Nicholas Todd Zangler

Stephens Inc., Research Division

Yes. So obviously, strong subscriber number for 2Q despite the price hikes on the plan and the incremental RSN fees. So maybe if you could just talk about the upside that you had in the quarter relative to your expectations set in that guide? Just curious if the stronger Brazil was due to new customer growth or just maybe less churn than you might have expected in that initial guided thought?

David Gandler

Co-Founder, CEO & Director

Yes. Look, I think, Nick, as you know, we've raised prices in the beginning of this year materially. So we were somewhat conservative, I think, at the beginning of the year. But what we have demonstrated is that the true pricing power of our brand and our product. And so I think that we are well positioned in terms of being able to bring in new customers. But at the same time, I think we've done a really solid job reactivating customers back to the platform despite the price up. So I would say it's a combination of that.

Also, just thinking about the sports viewership and news, again, just wanting to briefly mention the strikes. We've seen a pretty significant bump year-over-year in sports viewership as well as news viewership up by about 14%. And that might be headline related, of course, but I think those two, coupled with our work with our current database of customers, I think, has really been the key driver to maintain a pretty, I would say, strong retention rate.

Nicholas Todd Zangler

Stephens Inc., Research Division

And obviously, on that point, if you're seeing higher news viewership and obviously, sports always strong, that would potentially suggest that political ad spend would be favorable for you guys, or at least the opportunity is there. So just any thoughts on whether you've actually seen political ad spend start to flow through? I know it's early, but the talk is that ad spend campaigns can start far earlier. So curious if you're seeing any flow-through yet on the advertising front from political?

And then just thoughts on the back half of 2023 for political. Obviously, most of that flows in through 2024, but again, expectations are that maybe we could see some earlier recognition. So again, just overall thoughts on political and what you see so far?

John Janedis

CFO & Principal Accounting Officer

Maybe I'll start with that. I would say, just to bring it back a second, as a reminder, last year, we did call it somewhere in the \$4 million to \$5 million range in terms of political for the year. I can tell you, at this point, it's been a significant focus for the team starting, I'd say, call it in April or May.

I'd say over the past couple of weeks, there's been incremental interest, if you will, on the political advertising side. I think maybe there's some small money on the books, but I would tell you that the team is very, very optimistic in terms of where we can go with that and the sales team, I'd say it's focused much earlier this season versus the prior season.

David Gandler

Co-Founder, CEO & Director

Yes. And Nick, just to add a couple of comments there, why I'm super excited about political because this is a real opportunity for Fubo to drive rate on that side and we have been sort of doing the rounds. So think about elections are won and lost by a couple of thousand votes. So there's no way you can overlook a platform like ours with elections decided with such slim margins. So we're well prepared for political and

the teams have this on focus. And the goal will obviously be to take advantage of some of these really tight races.

And let's not forget, given our local programming capabilities, we think we're going to have a pretty strong opportunity within our local sports coverage to be able to really drive political business.

Operator

[Operator Instructions] Your next question is from the line of Jim Goss with Barrington Research.

Unknown Analyst

This is Pat on for Jim. I just wanted to ask about on subscriber acquisition costs, which you said it was kind of low your target range. I was just wondering what some of the drivers of that were. And if like the kind of a softer ad market might make that a little less sustainable as the market improves?

David Gandler

Co-Founder, CEO & Director

Yes. I think -- look, I think historically, if you look back, we've always been hyper-focused on efficiency just given our budget versus budgets of other players, whether they're traditional or virtual. And so I think what you're really seeing is continued efficiencies on the digital advertising front. Of course, some of the CPMs and other tactics that we typically deploy have -- sorry, I got cut off there. Typically, just again, focused on efficiency. And so we typically move dollars in and out of inefficient areas on a regular basis, frankly, almost in real time.

So we're super excited about that. And just to kind of give you a sense of how important that number is, I mean if you think about other companies that -- or similar companies that have recently reported, we've seen sales and marketing lines anywhere from -- at some of the most efficient companies at 13% and 25% companies like Roku. So coming in, in terms of subscriber growth, subscriber revenue with such an efficient marketing spend is a real pleasure for us, and we'll continue to focus on that, which is part of our focus for the back half of the year.

John Janedis

CFO & Principal Accounting Officer

Pat, I would add a couple of things to that as well. I think one is that there's certainly, I'd say, increased recognition in terms of the Fubo brand, which has helped. And then I'd say, secondly, I would just want you to remember that in terms of TV, which arguably is where the pressure is in terms of CPM is downward. That's a very small portion of our overall ad budget.

Operator

I will now hand today's call back over to Alison Sternberg.

Alison Sternberg

Senior Vice President of Investor Relations

Thank you. So David, we have a -- I'm going to combine it into one question, but we have some questions from investors via our stay technology platform. Again, there are two questions, but they're sort of similar thematically. So I'll combine them into one. The first is what makes Fubo different from the rest of the streaming services? So pulling out 10,000 feet, what differentiates the offering? And as somewhat of an extension of that, what are some of the things that will be implemented in the future in order to maintain that competitive advantage relative to other streaming platforms?

David Gandler

Co-Founder, CEO & Director

Yes. So as always, we've been focused in three areas. One is, I think we differentiate on brand. We always have and we are known to be the sports brand that is evident still today. As you look at opening day or any other start of any sports season, you'll see organic downloads really grow significantly. The second

piece is content. We continue to differentiate on the sports side. Most recently, we have become the home for local sports. We have relationships now with a multitude of teams including our recent announcement with our partnership with Sky. So we're continuing to build on those locally, and that creates a lot of goodwill with customers.

And then third, is really a focus on product. As everyone knows, we've been historically focused on being first to market with key sports features. And today, we've already launched a couple of new capabilities that are in beta and we're continuing to test, all of which are related to our video AI capabilities, our proprietary technology stack that we've continued to develop. And we've tested a new AI feature with the NBA finals, which allow viewers to relive the most exciting moments allowing us to really index in real time, a lot of these capabilities.

So you'll start to see more and more on the advanced DVR front and all of our work with our video AI. Once we have launched our unified platform, which I think will start to roll that out this month very conservatively. We'll be able to open up more resources to really focus on driving greater feature sets for our enthusiastic sports audience.

Alison Sternberg

Senior Vice President of Investor Relations

Excellent. Thank you, David. Back to you, operator.

Operator

Thank you. This does conclude today's call. You may now disconnect your lines.

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