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Coupang, Inc. (CPNG)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, everyone. My name is Krista and I will be your conference operator today. At this time, I would like to welcome everyone to the Coupang 2024 third quarter earnings conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

Now, I'd like to turn the call over to Mike Parker, Vice President of Investor Relations. You may begin your conference.

Michael Parker

Vice President & Head-Investor Relations, Coupang, Inc.

Thanks, operator. Welcome, everyone, to Coupang's third quarter 2024 earnings conference call. I'm pleased to be joined on the call today by our Founder and CEO, Bom Kim; and our CFO, Gaurav Anand. The following discussion, including responses to your questions, reflects management's views as of today's date only. We do not undertake any obligation to update or revise this information, except as required by law.

Certain statements made on today's call include forward-looking statements. Actual results may differ materially. Additional information about factors that could potentially impact our financial results is included in today's press release and in our filings with the SEC, including our most recent annual report on Form 10-K and subsequent filings.

During today's call, we may present both GAAP and non-GAAP financial measures. Additional disclosures regarding these non-GAAP measures, including reconciliation of these measures to the most comparable GAAP

measures, are included in our earnings release, our slides accompanying this webcast, and our SEC filings, which are posted on the company's Investor Relations website.

And now, I'll turn the call over to Bom.

Bom Kim

Founder, Chief Executive Officer & Chairman, Coupang, Inc.

Thanks, everyone, for joining us today. Before we review our results for the third quarter in detail, I'd like to start with three key takeaways.

First, our strong and consistent growth and expanding margins are the result of years of investment and a relentless drive to break trade-offs to do the hard things that deliver an ever-improving experience for our customers and operational excellence, not one at the expense of the other.

Second, our growth in Product Commerce is fueled primarily by deeper engagement from our existing customer cohorts, driven in large part by selection expansion in both established categories and newer offerings like Fresh and Fulfillment and Logistics by Coupang, or FLC. Over the long term, growth from existing cohorts will be supplemented by the converging spend of new active customer cohorts.

Third, our nascent offerings like Eats, Taiwan, Play, and Farfetch, along with ads and FLC, continue to march forward on the positive trajectory that we've seen throughout the year. It's important to note that with each of these offerings, we're still in the very early stages of the journey. And with each step, we become even more encouraged by their potential to create meaningful moments of wow for customers and deliver attractive returns.

Now, a few highlights from our results for the quarter. This quarter, constant currency revenues grew 32% over last year, or 25% excluding Farfetch, which we acquired earlier this year. This marks yet another quarter of at least 20% constant currency growth, which we've been able to do in 14 out of the 15 quarters we've reported since our IPO. And still, we continue to represent just a small percentage of the massive commerce opportunity in the markets we serve. We believe the growth opportunity in the years to come is still largely untapped, with much of it yet to be realized.

Active customers in Product Commerce grew again, up 11% year-over-year. It's important to note that our growth continues to be driven primarily by the increasing spend of our existing customers. We continue to see higher engagement as we add more selection on Rocket and provide more services.

Again this quarter, all of our customer cohorts increased their spend at strong levels, even our oldest and highest spending cohorts. And currently, only a quarter of our customers purchase in nine or more categories out of the more than 20 categories we offer. We're still in the process of discovering what the potential spend is for all of our cohorts, including our oldest.

One driver of the expanding cohort spend is the compounding value of our WOW membership savings program. Our WOW members increasingly see the value of WOW and the many benefits they receive on Coupang, including access to free shipping, free Dawn and Same-Day Delivery, free returns, free content on play, free Eats delivery, and free Rocket Fresh deliveries. We see the higher levels of engagement reflected in the order frequency of our WOW members, which is nine times that of our non-WOW customers.

And our most mature WOW members spend on average over 2.5 times that of our newest WOW members. Our mission is to provide the best overall customer experience by offering the best in selection, savings, and service.

And we believe there's a significant opportunity to break the trade-off between selection and service, as there's still a lot of selection that has yet to become available on Rocket Delivery.

Just one small example, this quarter we launched R.LUX, our new luxury offering, which gives customers access to some of the most in-demand luxury beauty brands. We've partnered directly with luxury brands to provide a new kind of white glove service. Customers interact with the most exclusive brands in R.LUX's rich and sophisticated shopping environment and receive products via Rocket's next or same-day delivery in elevated packaging, custom designed exclusively for R.LUX. It's just another example of the latest selection and service we've added to our customers' delight. And there's much more to come.

We continue to see impressive momentum in our FLC offering, which also expands the selection that customers can enjoy with free Rocket Delivery. Our growth in units, sellers, and overall volumes in FLC continued this quarter at the strong pace we've seen throughout the year, each of them growing over 130% year-over-year. FLC is also in the early stages of its growth trajectory, and we believe it will be a significant part of our growth story for years to come.

Now, a few words on Developing Offerings. As I previously noted, we continue to see our initiatives advancing on the positive trajectory that we've seen throughout the year. With Farfetch, our team is making significant progress in driving operational efficiency through disciplined execution. As we stated earlier this year, our goal was to achieve near breakeven profitability by the end of the year. We hit that milestone this quarter. We are also excited about the strong response we're seeing from Eats customers, who have embraced the exceptional service and value that we're providing through our food delivery offering.

In Taiwan, we're partnering directly with more and more brands to expand selection and inventory for our customers. And where we've added meaningful supply, we've seen dramatic growth. We're excited to redefine what customers in Taiwan can expect from online retail, and to alter the growth trajectory of the brands with whom we partner as we've demonstrated many times in the past.

In the context of the massive and untapped potential that lies ahead, we are just getting started. Our ability to capture that opportunity will depend on our ability to stay focused on the relentless pursuit of customer wow and operational excellence.

Now, I'll turn the call over to Gaurav to review the results of the quarter in greater detail.

Guarav Anand

Chief Financial Officer, Coupang, Inc.

Thanks, Bom. In Q3, we continued the trend of strong results that we have delivered throughout this year. Our customers continue to engage with Coupang with expanding momentum, which is demonstrated by the results we are reporting this quarter, sustained growth in revenues, Product Commerce active customers, gross profit, and adjusted EBITDA.

Before I go through the numbers for the quarter in detail, I need to highlight a few items to provide more context to the comparative numbers we are reporting. First, I remind you of our Farfetch acquisition completed earlier in Q1 of this year. Where possible, I'll provide results with and without Farfetch. And second, the FLC accounting change that began in Q2 of last year no longer impacts our quarterly year-over-year comparative results. As a result, FLC adjustments to quarterly year-over-year revenue growth rates are no longer needed.

This quarter, our total net revenues grew 27% year-over-year, or 20% excluding the impact of Farfetch. Our constant currency growth, adjusting for the effects of changes in foreign currencies, was 32%, or 25% excluding Farfetch.

During Q3, the total retail spend in Korea was relatively flat year-over-year. This compares to our Product Commerce segment, which grew revenues at 16% year-over-year, or 20% in constant currency. This Product Commerce constant currency revenue growth of 20% is consistent with the growth in our overall Product Commerce volumes. As we continue to be a very small portion of the total commerce spend in Korea, we see a massive runway for growth ahead of us.

We continue to see strong growth in the average spend levels of our customers this quarter. Net revenues for Product Commerce active customers grew 4% year-over-year in Q3, or 8% in constant currency. This was impacted by the short-term dilution from newer active customers that historically have lower spend levels in their early quarters.

And as Bom noted earlier, we continue to see the spend levels of all our cohorts increase, even our oldest and highest spending cohorts. Our Developing Offerings segment continued the similar momentum that we have seen throughout this year. Q3 Developing Offerings segment revenues grew nearly 350% year-over-year, or over 350% in constant currency. Excluding Farfetch, Developing Offerings segment revenues grew over 145%, or 155% in constant currency. We remain confident about the potential for each of the initiatives within Developing Offerings as demonstrated by the consistent momentum and strong customer response we have seen throughout the year.

We reported another record quarter with \$2.3 billion in gross profit, representing 45% year-over-year growth and a gross profit margin of 28.8%. Excluding Farfetch, we delivered \$2.1 billion in gross profit, growing at 33% year-over-year, with a margin of 28.1%. This represents a margin improvement of over 270 basis points versus last year. I would also like to emphasize the importance of growth in gross profit as a primary indicator of our overall underlying growth, given the evolving mix of various offerings, services, and channels within our business.

Within our Product Commerce segment, we saw gross profit growth of 28% year-over-year to \$2.1 billion and a gross profit margin of 30%. This represents an improvement of more than 280 basis points over last year, driven primarily by similar factors that we have seen driving margin expansion throughout the year.

We continue to see benefits from increased efficiencies across operations, including benefits from greater utilization of automation and technology, further supply chain optimization, and the scaling of margin accretive offerings. On a quarter-over-quarter basis, Product Commerce gross profit margin decreased 30 basis points versus Q2. This is largely due to quarterly fluctuations in our business, including some seasonal impacts. As we have pointed out in the past, margins may continue to be uneven quarter-over-quarter, but we expect our profit margins to continue expanding over time.

This quarter, we saw a 355 basis points increase in OG&A expense as a percentage of revenue versus last year. This increase was primarily due to the inclusion of Farfetch and its related acquisition and restructuring costs. We are also investing in technology and infrastructure to build a stronger foundation for future scalability. The higher investment into tech and infrastructure as a percentage of revenues is driven by timing and does not reflect a structural change in our operating costs. As we have demonstrated many times before, we expect to generate leverage on these investments as we scale, and OG&A will decline over time as a percentage of revenue.

We generated \$132 million of income before income taxes in Q3 and a \$70 million of net income attributable to Coupang stockholders. This resulted in diluted earnings per share of \$0.04. Excluding Farfetch, net income attributable to Coupang shareholders was approximately \$108 million for the quarter, and diluted earnings per share was \$0.06.

On a consolidated basis, we reported \$343 million of adjusted EBITDA this quarter. Among other things, this excludes the non-recurring acquisition and restructuring costs related to Farfetch. Our adjusted EBITDA margin for the quarter was 4.4%. On a trailing 12-month basis, we generated adjusted EBITDA of \$1.2 billion, with a margin of 4.3%. Excluding Farfetch, we reported \$345 million of adjusted EBITDA in Q3 and \$1.3 billion over the trailing 12 months, with a trailing 12-month adjusted EBITDA margin of 4.7%. We continue to be confident in our ability to consistently deliver expanding consolidated margins on an annual basis going forward.

Our Product Commerce segment delivered \$470 million of adjusted EBITDA this quarter, with a margin of 6.8%. This represents a year-over-year margin expansion of 12 basis points and a decrease of 142 basis points versus last quarter. This quarter-over-quarter decrease is due in part to the fluctuations in fulfillment-related operational costs, as well as increases in technology-related costs this quarter. This increase in technology spend represents an adjustment to our historical spend levels, and we expect to generate operating leverage against these costs over time as we scale.

For Developing Offerings, our segment adjusted EBITDA in Q3 was a \$127 million loss for the quarter, improving \$34 million year-over-year and \$73 million quarter-over-quarter. While we expect to continue to see some unevenness in the level of losses from quarter-to-quarter, the improvements we saw this quarter are most notably driven from improvements in both Eats and Farfetch. sWith regards to Farfetch, we are excited to report that we hit our goal of achieving near breakeven profitability.

We generated \$1.8 billion in operating cash flow and \$935 million of free cash flow over the trailing 12 months. This represents a decrease of \$578 million in trailing 12-month free cash flow versus the prior quarter. There is no structural change in our free cash flow generation, and this variance is driven primarily by certain non-recurring working capital benefits that we previously communicated were in the prior trailing 12-month period, as well as the timing of significant capital expenditure payments. The majority of the increase in CapEx relates to infrastructure investments that we are making in Korea, which creates some unevenness in the timing and levels of spend. We are exploring strategies to reduce the capital intensity of our real estate operations, while also maintaining operational control over these strategic assets.

This quarter, we reported an effective income tax rate of 52%, driven by consolidation of pre-tax losses in Farfetch and non-deductible expenses. As a reminder, this is just an accounting tax rate as we expect our cash tax obligations this year to be closer to 20% to 25%, excluding Farfetch losses.

Our teams delivered another strong quarter in Q3, one that demonstrates our commitment to driving durable growth and investing to deliver long-term value to both customers and shareholders.

Operator, we are now ready to begin the Q&A.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] The first question comes from Eric Cha from Goldman Sachs. Your line is now open.

Eric Cha

Analyst, Goldman Sachs (Asia) LLC (South Korea)

Q

Right. Thank you for the opportunity and congrats on a good result in a tough quarter. I have two questions on Developing Offerings. First one is that the Developing Offerings loss has come down quite a bit this quarter compared to the previous quarter. Could you elaborate on some of the moving pieces? And could you please also provide some color into what fourth quarter trend might be in terms of the loss? And if we could get a hint on – into the trend next year, that would really help.

The second question is on Farfetch specifically. It's nice to see Farfetch has already reached close to breakeven this quarter. Can we be expecting some maybe profits into the fourth quarter and for the next year? And what would be the synergy between Coupang and Farfetch? Thank you.

Bom Kim

Founder, Chief Executive Officer & Chairman, Coupang, Inc.

A

Hi, Eric. Thanks for your question. On Developing Offerings, it's worth highlighting that due to the nature of our investments there, the timing of expenses with the various components may fluctuate quarter-to-quarter as they have in the past. I don't think there's anything material enough to update on that front and certainly for the fourth quarter.

On Farfetch, as Gaurav shared and I shared earlier, we're very happy that the Farfetch team has achieved the end of year goal of near breakeven adjusted EBITDA in Q3. We're proud of the speed and especially at scale and the discipline with which the team has executed so far this year. There's still more work to do there, and our goal is to finish the job of stabilization through the remainder of the year. Next year, we'll begin to assess other opportunities, including synergies with Coupang. And we look forward to sharing updates at the appropriate time.

Operator: The next question comes from Seyon Park with Morgan Stanley. Your line is now open.

Seyon Park

Analyst, Morgan Stanley & Co. International Plc (South Korea)

Q

Okay. So the question is on the OG&A cost, which saw about \$180 million sequential increase. I know Gaurav had explained that there are seasonal factors in there, as well as spending on technology and automation. I just wanted to get a sense of how much maybe of that is temporary compared to structural, especially for the technology spend, usually, I guess technology spend is accounted for as amortization on some kind of a capital spend. Is that kind of what has been influencing the higher OG&A? And that's my first question.

The second question, I'm not sure if it's going to be readily available, but if if we were to take FLC and have it on a growth basis, do we have a sense of what the year-on-year growth would have been for the third quarter? Thank you.

Bom Kim

Founder, Chief Executive Officer & Chairman, Coupang, Inc.

A

Hi, Seyon. On the OG&A, and particularly the technology and automation – or technology and infrastructure spend, as Gaurav mentioned earlier, we've always made and we continue to make investments there to build the foundation for future scalability. The higher percentage of revenues that that investment in tech and infrastructure accounted for this quarter does not reflect a structural change. It's really a matter of timing.

And you may see some unevenness quarter-to-quarter, because we just don't manage our business or our investment schedule with an eye towards quarterly numbers. So, again, it's a timing issue, not a structural one. And we expect to generate leverage as we have in the past on these investments, and we expect OG&A to decline over time as a percentage of revenue.

On FLC, we've seen strong momentum throughout this year, that continued in Q3. FLC's growth in units, sellers, and overall volumes so far this quarter – sorry, this year, each of them grew over 130% year-over-year. And I think what we can share is that FLC is still in its early stages, and it will continue to be a significant part of our growth for years to come.

Operator: The next question is from Stanley Yang with JPMorgan. Your line is unmuted.

Stanley Yang

Analyst, JPMorgan Securities Far East Ltd. (South Korea)

Q

Okay. Thank you for the opportunity. I have two questions. First question is on the Product Commerce margin side, the margin expansion trajectory has been quite strong and consistent for some years on trailing perspective, although a bit of uneven like this quarter. Moving on to next year, do you expect Product Commerce margin expansion speed to remain similar to 2024 level or accelerate or decelerate? And also, among the margin drivers, will FLC be more meaningful margin driver next year?

My second question is on the Developing Offerings side, you already achieved your guidance of the Farfetch margin. Any color on your margin mix trend during third quarter? Is it a bit early but curious about Developing Offerings loss guidance in 2025, that would be appreciated. Thank you.

Bom Kim

Founder, Chief Executive Officer & Chairman, Coupang, Inc.

A

Hi, Stanley. As you point out, Product Commerce margin generated \$470 million in adjusted EBITDA, which is an improvement of about 10 basis points year-over-year, but decreased 140 basis points versus Q2. So there's some quarterly fluctuation there. And that's something that's been consistent with our performance in the past. We see these quarterly fluctuations in our business. And this quarter, it included some seasonal impact due to weather-related expenses we often see in Q3 versus Q2.

And we've provided long-term margin guidance for adjusted EBITDA, which is over 10%. We continue to see a lot of upside in almost every part of our business. And there are opportunities to leverage technology, including AI and automation, expand margin-accretive offerings, improve processes, among many other things, to both enhance the customer experience and reduce waste. And I think you'll see some quarter-to-quarter unevenness, but we're confident of that long-term potential opportunity there.

On your second question about Farfetch, on Developing Offerings, I think it's a – we'll have more to share on our 2025 guidance or thoughts on 2025 in the upcoming quarter. But so far, we're pleased with the progress we're

making in Farfetch. But as I mentioned, the job is still not done. There's still more work to do, and our focus remains on finishing the job of stabilization throughout the remainder of the year.

Operator: [Operator Instructions] The next question comes from Jiong Shao with Barclays. Your line is open.

Jiong Shao

Analyst, Barclays Capital, Inc.

Q

Thank you. I have a quick follow-up first, then two questions, if I may. I think, Bom, you mentioned earlier, of course, we understand the investments go up and down from quarter to quarter. And I was just wondering, because a lot of the investments seems to be in technology, which tend to be amortized as we know. And I was just wondering, given the sort of more intensive investments, intense investments in Q3 this quarter, was anything like one-time, or this is just a base, you're going to amortize that going forward, and then you will grow out of that as the margins expand again? So, just try to get a little bit of extra color there, if I may. Then I have two questions.

Bom Kim

Founder, Chief Executive Officer & Chairman, Coupang, Inc.

A

Sure. Look, I think Guarav can comment more on this, but we're not capitalizing our tech investments. So I think this amortization and depreciation question is a little bit surprising for us. There are no one-time. This is part of our continued quarterly investment in technology and infrastructure. You can look at our historical performance on that, and certainly on OG&A more broadly that we have demonstrated, and we continue to expect to generate leverage on it over time.

You will see quarter-to-quarter some unevenness, because we just don't manage our business to hit quarterly expectations on investments like this. So, I think that's some of the unevenness you're seeing, and again, we don't capitalize our tech investments. So this is not an issue of amortization/depreciation reflecting here, and we're not talking about any big one-time investments here.

Jiong Shao

Analyst, Barclays Capital, Inc.

Q

Okay. This is super helpful. Okay, that's great. That helped explain things. My questions are, one, I was hoping you could talk a little bit about your ad take rate. I know that has been a growth driver of high margin. If you can share some insight there in terms of the range, your currently AR, and where you think you can get to.

My second question is that we have noticed you are doing some sort of a campaign or – to sort of get some of the cross-border guys to do the fulfill by Coupang offering, just, hey, we help delivery of products if you want to do cross-border. Is that something sort of meaningful, or is that just one of many, many things you do day to day, and we shouldn't pay too much attention to that?

Bom Kim

Founder, Chief Executive Officer & Chairman, Coupang, Inc.

A

I think to your second point, Jiong, there's a number of initiatives. There are initiatives big and small. So I think, we're always trying to bring more selection to our customers. We're always trying to increase savings. We're always trying to improve services. And you'll see initiatives across the company on a number of fronts there.

On ads specifically, I think to your first question, it continues to be an important area of investment and innovation for us. And it's growing well. As we've said before, it's still a small percentage of our overall transaction volume and lower than the levels we see with our global peers. We're still in the developing stages of building out the full

range of innovative tools and services that we believe we need to provide the best experience for both consumers and advertisers.

Jiong Shao

Analyst, Barclays Capital, Inc.

Okay. Thank you, Bom.

Q

Bom Kim

Founder, Chief Executive Officer & Chairman, Coupang, Inc.

Thank you.

A

Operator: We will now take our last question from the line of James Lee with Mizuho. Your line is open.

James Lee

Analyst, Mizuho Securities USA LLC

All right. Great. Thanks for taking my questions. Two over here. First on Eats, you guys call out improvement of losses this quarter. Maybe can you unpack that a little bit, maybe which aspect of the business you're seeing increased efficiency? And can you also comment on the market share and your progress on expanding the supply for the food delivery business?

Q

And secondly on Taiwan, maybe can you give us an update on progress you've made in that region, kind of your market positioning, and your efforts on resolving some of the quality of service issue currently facing in Taiwan e-commerce industry? Thank you.

Bom Kim

Founder, Chief Executive Officer & Chairman, Coupang, Inc.

Hi, James. I think the – what we've shared on Developing Offerings improvement, Farfetch is the segment or the offering that we have shared that we've improved our losses. Specifically we've achieved near breakeven, which was our target for end of the year, which I think it's worth noting again that we're really proud of the Farfetch team for having achieved that, but the job is also not finished.

A

Eats, we continue to see a strong response from our customers to the value that we're providing and the service levels that we're providing. Our goal there is to provide customers with more choice, with a service that offers selection, service, and savings. And it's still very early, and we'll share updates in the future when there are meaningful milestones or developments on that front.

Taiwan, I think, as we have mentioned, we are excited about the opportunity there broadly. It's still early. There's momentum and progress. We're fortunate to be able to leverage there a lot of what we've built in Korea over many years. That's certainly helping us scale. And we believe it will also help us generate operational efficiencies more quickly than we did in Korea. As always, we'll be very disciplined with any increased levels of spend, investing more only when we are convinced about the returns we can generate, and we look forward to providing more updates there at the appropriate time in the future.

James Lee

Analyst, Mizuho Securities USA LLC

Great. Thank you.

Q

Bom Kim

Founder, Chief Executive Officer & Chairman, Coupang, Inc.

A

Thank you.

Operator: There are no further questions. This concludes today's conference call. Thank you, and you may now disconnect.

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