

Coupang, Inc.

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— PARTICIPANTS

Corporate Participants

Michael Parker – Vice President & Head-Investor Relations, Coupang, Inc.

Bom Kim – Founder, Chairman & Chief Executive Officer, Coupang, Inc.

Gaurav Anand – Chief Financial Officer, Coupang, Inc.

Other Participants

Eric Cha – Analyst, Goldman Sachs (Asia) LLC (South Korea)

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

Se-Yon Park – Analyst, Morgan Stanley & Co. International Plc (South Korea)

James Lee – Analyst, Mizuho Securities USA LLC

Jiong Shao – Analyst, Barclays Capital, Inc.

— MANAGEMENT DISCUSSION SECTION

Operator: Hello. My name is Krista and I will be your conference operator today. At this time, I would like to welcome everyone to the Coupang 2023 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] Thank you.

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 2023 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 reconciliations of these measures to the most comparable GAAP measures, are included in our earnings release, slides accompanying this webcast and our SEC filings, which are posted on the company's Investor Relations website. Any comparative comments we make will be on a year-over-year basis, unless we state otherwise.

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

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

Thanks, everyone, for joining us today. Before I turn it over to Gaurav to go through our financials in detail, I'd like to share with you four key takeaways from our third quarter results.

First, we continue to deliver durable growth and expanding profitability, not one at the expense of the other, because of our years of unparalleled investment and an unrelenting focus on both the customer experience and operational excellence.

Second, our flywheel is accelerating. Our selection advantage is a critical component of that accelerating flywheel. In Q3, we expanded selection across both first and third party. Both active customer and revenue grew even faster than last quarter. Active customers grew 14% year-over-year, faster than the rate of any quarter since the pandemic levels of 2021. We've observed that increasing selection on Rocket leads generally to increasing customer spend on Coupang.

In Q3, even established categories like consumables experienced double-digit year-over-year growth that was a high multiple of the rate of the market. Newer categories like Fresh grew more than twice as fast as the overall business and also at a high multiple of the market growth rate. We're also seeing strong third-party volume growth, which is outpacing the rest of the business. That is in part due to Fulfillment & Logistics by Coupang, or FLC, growing more than three times faster than the overall business. FLC is also expanding on Rocket Delivery selection in categories like fashion, where historically, first-party inventory has been slower to grow.

We believe we still have significant opportunity ahead in both the number of active customers and spend per customer. Our active customer count is just \$20 million and our single-digit share of the total retail market indicates a low share of wallet today. We believe the continued expansion of selection on Rocket via our first-party offering and FLC will help drive a higher share of both active customers and total retail spend.

Third, WOW membership is amplifying all the benefits of our ecosystem. When WOW members increase their engagement around one benefit, it can increase their engagement across all of Coupang's offerings. Our WOW savings program in Eats is a perfect example. Since we launched the Eats' WOW membership savings program in early Q2, we've seen a surge of customer and order growth. WOW members participating in Eats has increased 90% since launch, and transaction volume has more than doubled in over 75% of the regions where we've launched the program. We expect Eats to be at approximately 20% market segment share by the end of the year, nearly twice the level it was at the launch of the program, and setting aside one-time investments such as new merchant acquisition costs.

Eats is unit economics positive.

This is a permanent program for our WOW membership. And with roughly only 20% of WOW members purchasing Eats in Q3, we see vast opportunity for growth ahead. But the impact of this program extends beyond Eats. Engagement on Eats helps drive higher levels of member acquisition and retention on WOW membership. As we've noted before, WOW members purchase with significantly higher frequency and across more categories and offerings than non-WOW members. WOW members who purchase Eats spend considerably more on Developing Offerings. And in the regions where we've launched the program, we've observed that they spend twice as much overall as WOW members who don't purchase Eats.

Fundamentally, Coupang is not a consumer goods company or a delivery company or a retail company. Coupang is, at its essence, a company that breaks tradeoffs to deliver WOW in customer's daily lives. WOW membership is at the heart of that broader mission and we're determined to make WOW the best value on the planet for customers.

Finally, our conviction about the long-term potential in Taiwan continues to strengthen. We launched Rocket Delivery in Taiwan in October of 2022, and the offering in Taiwan has scaled much faster in its first year of operation than it did in its first year in Korea. And our app is on pace to be the most downloaded app in the market for all of 2023. We're off to a promising start.

Our growth in Taiwan, it is also opening doors of opportunity for our merchants and suppliers in Korea. Small and medium enterprises, for example, have historically had challenges reaching customers outside of their domestic market. In just one year, we've helped over 12,000 SMEs export their products to Taiwan. It's a reminder that the tradeoffs we break have the potential to benefit all in the value chain by generating moments of WOW for customers, opportunities for suppliers and merchants, and value for our shareholders.

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

Gaurav Anand, Chief Financial Officer, Coupang, Inc.

Thanks, Bom. This quarter was a clear demonstration of the power of the Coupang flywheel. We again delivered record active customers, revenue, gross profit and cash flows, while also generating even greater value for our customers. We continue to see an accelerating growth rate in our active customers, growing at 5% in Q1, 10% in Q2 and 14% in Q3. We now have 20.4 million active customers, adding 2.3 million customers so far this year. Total net revenues grew 21% year-over-year this quarter or 18% in constant currency.

As we communicated last quarter in Q2, we began implementing certain contract changes within our FLC program that resulted in accounting changes on FLC revenue going forward. We changed from a gross to a net basis. The FLC accounting change had no impact on FLC's underlying economics or gross profits. While almost all of the FLC merchants converted to the new contracts by end of Q2. The accounting change will continue to adversely affect our reported revenue growth rate for the next several quarters due to the different accounting treatment in the comparative quarters. Using the same accounting treatment in place in Q1 prior to the change, our consolidated Q3 total net revenue growth rate would have been an estimated 630 basis points higher than the 18% constant currency growth rate.

Product Commerce segment revenues grew 21% on a reported basis and 18% in constant currency. We are making exciting progress in Developing Offerings, where segment revenues grew 41% on a reported basis and 40% in constant currency.

The momentum of our key investment initiatives, from Eats to Taiwan, is becoming increasingly evident. With the overall retail market in Korea growing an estimated 1.3% year-over-year, this quarter continued our years-long trend of growing at a high multiple of the overall retail market. We see that customers increasingly come to the Coupang for the best prices, broadest assortment and fastest delivery experience.

Fueled by the strong top line growth across our business this quarter, we generated record gross profit of \$1.6 billion, growing 27% over the last year.

Our gross profit margin for the third quarter was 25.3%, growing over 110 basis points year-over-year and decreasing nearly 80 basis points quarter-over-quarter. This was driven by the improved margin within Product Commerce, primarily offset by the increased investments in Developing Offerings that we mentioned in our call last quarter.

Within our Product Commerce segment, gross profit margin improved 250 basis points year-over-year, where we continue to generate further improvements through supply chain optimization, operational efficiencies and scaling of newer offerings like Ads. The FLC accounting change

positively impacted the Q3 gross profit margin by an estimated 150 basis points. The improvements were offset this quarter by short-term factors such as lower margin originating from new inventory selection added.

As we have demonstrated in the past, we expect to generate higher margins over time with optimization. Expanding our selection in both third and first party has been critical to our durable growth and margin registry. We continue to expand our selection with confidence in the long-term impact on customer growth, customer spend and margin expansion.

OG&A expense as a percentage of revenue in Q3 increased over 120 basis points year-over-year, negatively impacted by an estimated 120 basis points from the FLC accounting change.

This quarter, we delivered net income of \$91 million and earnings per share of \$0.05. This includes \$25 million of income tax expense, with an effective tax rate of 21.7% and a year-to-date tax rate of 20.5%.

Our Product Commerce segment generated \$399 million in adjusted EBITDA with a margin of 6.7%, an improvement of nearly 190 basis points year-over-year and a decrease of approximately 50 basis points quarter-over-quarter. This was driven by our operational improvements, optimization and scaling of margin accretive offerings, offset by factors including short-term inefficiencies around selection expansion.

Our consolidated business generated \$239 million of adjusted EBITDA this quarter and \$991 million over the trailing 12 months. The adjusted EBITDA margin of 3.9% of Q3 was essentially flat year-over-year and down nearly 130 basis points quarter-over-quarter. This was driven by our Product Commerce segment, as well as increased investments in Developing Offerings this quarter.

We are still early in our margin expansion journey and believe that are significant opportunities in front of us to drive higher margin levels through supply chain optimization, operational improvements, scaling of newer offerings like Ads, and merchant services and automation. While there may not always be quarterly improvements, we expect to continue generating meaningful improvements in consolidated adjusted EBITDA dollars and margin on a full-year basis, while investing into our nascent growth opportunities in Developing Offerings. We are confident in our ability to achieve our entitlement adjusted EBITDA margins of over 10%.

Our Developing Offerings segment adjusted EBITDA loss was \$161 million this quarter, an increase of \$117 million year-over-year. This was driven by our increased level of investments into these nascent opportunities, as we had communicated last quarter. We anticipate the losses for Developing Offerings in the fourth quarter will be lower than the level of losses we saw this quarter.

As Bom noted, we are seeing exciting momentum in these early stage initiatives and are growing increasingly confident in their ability to compound value across our ecosystem and to accelerate the entire flywheel. We remain committed to investing with discipline and managing our business in line with our operating tenets.

We continue delivering record levels of cash flow. This quarter, we generated \$2.6 billion in operating cash flow and \$1.9 billion of free cash flow on a trailing 12-month basis. This is significantly higher than the trailing 12-month adjusted EBITDA due to some one-time and seasonal working capital benefits, among other factors. Generally, we expect that free cash flow on a TTM basis will be closer to the levels of adjusted EBITDA generated. As we continue to achieve even higher levels of cash flow generation, we remain committed to prioritize our capital allocation to those opportunities we believe will generate the highest levels of long-term shareholder value.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Eric Cha with Goldman Sachs. Your line is open.

<Q – Eric Cha – Goldman Sachs (Asia) LLC (South Korea)>: Thank you for the opportunity. I have two questions. First is on Product Commerce margin or GP margin. Would you be able to elaborate why Product Commerce gross profit margin declined sequentially adjusting for the accounting? I think you mentioned a headwind from the new inventory selection expansion. But can you elaborate on what this exactly means? Is a shift in GMV due to this inventory expansion the main reason for the decline? And should we anticipate this headwind for some time, especially the coming fourth quarter as well? So, that was my first question.

And the second question is on Developing Offerings. Accumulative adjusted EBITDA loss is now, I think, \$360 million. I know you mentioned the fourth quarter loss will come down. Are you still comfortable in meeting the guidance for the year, keeping under \$400 million? It seems – simply looking at the numbers, there has to be quite a bit of a reduction in loss to meet that. So, just wondering about that. Thank you.

<A – Bom Kim – Coupang, Inc.>: Hi, Eric. Thanks for the questions. On – just as a reminder, on – over the past [ph] 5, 12 (17:47) months, we've generated nearly \$1 billion in adjusted EBITDA, increasing margins by nearly 500 basis points. Product Commerce trailing 12-month adjusted EBITDA went from just over \$200 million to \$1.4 billion last year – last quarter. Our margin in Product Commerce also went up 500 bps. As we stated in the past, margins may be uneven quarter-to-quarter, but we will continue to see our profit margin continue its march upwards over time. There are some one-time expenses such as investment in new selection or merchant acquisition that might affect a quarterly snapshot of margins. But the underlying drivers of margin are strong, the underlying trends in margin are strong and have a lot of room for expansion. We remain very confident in our long-term guidance of over 10% adjusted EBITDA and corresponding free cash flows.

On Developing Offerings, we expect our investment in Developing Offerings to decline in Q4 versus Q3, and we project total investment for the year to be roughly in line, potentially a little more than the \$400 million estimate we mentioned previously. We remain encouraged by the momentum we're seeing. We remain encouraged by the underlying economics that we're seeing – the potential economics that we continue to see in our Developing Offerings initiatives. And in the past, we've demonstrated that only efforts that continue to confirm potential in meaningfully differentiated customer experience and significant future cash flows earn their way to more significant investments. And we'll continue to apply that discipline as we make investments and promising initiatives.

<Q – Eric Cha – Goldman Sachs (Asia) LLC (South Korea)>: Thank you.

Operator: Your next question comes from the line of Stanley Yang with JPMorgan. Your line is open.

<Q – Stanley Yang – JPMorgan Securities Far East Ltd. (South Korea)>: Hi. Thank you for the opportunity to have a question. I have one question on your Product Commerce EBITDA margin dynamic. Second quarter Product Commerce margin was a substantial beat, but third quarter was well below the expectation. What are the major operational changes to explain this diversion margin interaction between the two quarters? Are they coming from your strategic focus on the top line with increased discount on promotions or it's coming from the competition factor? Lastly, any Product Commerce EBITDA margin outlook guidance in fourth quarter should be very helpful. Thank you.

<A – Bom Kim – Coupang, Inc.>: Hi, Stanley. Thanks for your questions. So to be clear, there was no change in our pricing or pricing policies. We have, as we've mentioned, one-time expenses associated with new selection and merchant acquisition costs. For example, FLC is margin accretive if you exclude new merchant acquisition costs. As we've noted before, we reinvest in efforts to one-time investments to help merchants discover the benefits of FLC through a free trial, for example. And we've seen strong adoption from both consumers and merchants in FLC as a case in point. And when you have strong adoption, you also have, for example, more free trials. These are one-time investments to really help both parties discover the benefits. And as FLC scales, and FLC has scaled more than three times the rate of growth of our overall business this past quarter, merchant capture growth and savings by gaining access to billions of dollars of investment we made in infrastructure and technology that they couldn't have built on their own, we're seeing strong adoption and retention with merchants, and customers enjoy more services, more selection of Rocket services like Dawn and Rocket returns, which we believe unlocks considerable growth for merchants and attract even more selection and merchants to FLC, which in turn, expands the value for – of FLC for customers, for example, accelerating the flywheel. There is a lot of long-term benefits that we will continue to see. And you're seeing any quarterly snapshot of margins is really a blend of these initiatives, and some is affected by expenses that are one-time in nature associated with new merchant acquisition or new selection.

Operator: Your next question comes from the line of Se-Yon Park with Morgan Stanley. Your line is open.

<Q – Se-Yon Park – Morgan Stanley & Co. International Plc (South Korea)>: Hi. Thank you for the opportunity. My question is on the Developing Offerings. We've clearly seen a meaningful increase in revenues on a quarter-on-quarter basis. Can you maybe provide us with a little bit of a breakdown of what led to that increase? And then I think, Bom, you mentioned that the unit economics for Coupang Eats is positive. In which case, if Coupang did see a meaningful growth, and theoretically, that should lead to, I guess, lowered losses for the Developing Offerings, so if you can just help us kind of reconcile that, if it is the case that Eats is actually – or the losses are narrowing for Eats, but maybe it's been Taiwan or maybe on the Play side that has led to the larger losses, if that is the case, or if my logic is wrong here, you can correct me, that'd be great. Thank you.

<A – Bom Kim – Coupang, Inc.>: Hi, Se-Yon. Thanks for all the questions. As we've noted, we are seeing strong momentum in both Taiwan and Eats. I'll start with Taiwan. Our growth – it's only been a year in Taiwan since we've launched Rocket Delivery, but our growth in that first year has been faster in Taiwan than it was in Korea. And as you know, we remain very confident in the overall model of Rocket Delivery. We've been delighted by the customer response so far. We still have a lot of work to do to not only build the kind of customer experience we want there, but also the operational experience, the excellence that we've set our sights on. And as you continue to see us improve customer experience and improve operational excellence, you should see us able to capture growth and profitability in profits, not one at the expense of each other, as we've demonstrated in our first market, Korea.

On Eats, our Eats savings program on WOW is yielding strong results to date. As we've mentioned, transaction volumes have doubled in the majority of regions where we've launched the program, while members purchasing on Eats has also increased 90%. The number of regions where we're the number one food delivery service has also increased. And just 20% of all WOW members are purchasing Eats in Q3. So, we have a long runway for growth ahead. And of course, the impact of Eats extends also to our broader WOW membership program and Product Commerce offerings. Higher engagement on Eats expands our customer engagement across all service – across all services and our ecosystem, increasing acquisition retention and reducing attrition on – of WOW members. WOW members spend significantly higher than non-WOW members. We've observed WOW members who purchase Eats spend twice as much overall as WOW members who don't purchase Eats in the regions where we've launched this program.

So, there's a lot of beneficial accretive things to the overall ecosystem that we've seen with Eats. But even as a standalone offering, as we mentioned, Eats is unit economics positive. There are one-time set of costs like new merchant acquisition. And we've been onboarding – one of the less talked about aspects of Eats is that we've onboarded a lot of new merchants and lots of new selection and expanded the value of Eats beyond the savings program for our customers. But the unit economics trends that we continue to see give us more confidence about the potential of Eats. And the customer response, which we've been delighted by, makes us even more committed and excited to make Eats – the Eats savings program a permanent benefit of WOW membership.

Operator: Your next question comes from the line of James Lee with Mizuho. Your line is open.

<Q – James Lee – Mizuho Securities USA LLC>: Great. Thanks for taking my questions. I guess several follow-up questions on Taiwan, and I was wondering, Bom, can you talk about some of the learnings you have had so far? And also you can speak to some of the investments you're making, including maybe suppliers, customers, last mile delivery. And also, can you also lastly speak to some of the competitive response – responses you're seeing given your elevated level of investment in that region? Thanks.

<A – Bom Kim – Coupang, Inc.>: Hi, James. I think it's very early. We have a lot of work ahead. We've been pleased with the response that we've gotten from customers. Our service, as we've started, is resonating with customers. We've always believed that there are meaningful tradeoffs we can break, and the tradeoffs we break will resonate with customers in many markets. And we've been delighted by the customer response so far, but as I mentioned, we have a lot of work ahead. And we're excited about the progress that we can make or we can look forward to in improving customer experience and operational excellence, and we care about both of those pillars.

As always, we'll continue to be disciplined and opportunistic. As we've demonstrated in the past, we'll be rigorous in our analysis and invest only in opportunities that we believe will create both a meaningful differentiation of experience for customers and a meaningful return for our shareholders.

In general, we do, of course, pay attention to competition, but we tend to spend our energy obsessing about the things that we control. And we continue to be obsessed about improving customer experience and improving operational excellence. Those are the two fronts that we'll spend all of our energy on.

<Q – James Lee – Mizuho Securities USA LLC>: Great. Thank you.

Operator: [Operator Instructions] We will now take our last question from the line of Jiong Shao with Barclays. Your line is open.

<Q – Jiong Shao – Barclays Capital, Inc.>: Thank you very much for taking my questions. My first question is on competition, but in Korea. As you know, some of the Chinese cross-border guys getting out be more aggressive in Korea now. Temu entered the country a few months ago. AliExpress appears to be getting more aggressive in the country. Could you please talk about what do you see in terms of the competition from these guys? Any kind of product category overlap or not overlap? Any thoughts would be appreciated?

And the second question is back to Taiwan. I was wondering if there are metrics you can share with us in terms of either GMV, revenue, number of orders, anything like that or any kind of KPI metrics you are watching very closely for you to decide sort of the feasibility study? Whether or not Taiwan is so strategic, you are here for the long term, not like you pulled out of Japan, I think, a few months back. Thank you.

<A – Bom Kim – Coupang, Inc.>: Hi, Jiong. Thanks for your questions. As you can see, in Korea, we continue to show strong growth in both revenue and active customers. That's what we see. And our growth actually, there is – has been accelerating for three consecutive quarters. It's been accelerating. Active customers, as we mentioned, is growing faster than at any point since the pandemic levels. So, we continue to see at least strong indications internally with all the internal metrics that we see, very strong metrics. We think it's a reflection of the unmatched investments that we've made in what we believe is the best experience at the best costs. We'll continue to make efforts and invest to expand selection. As we've mentioned, we continue to make those investments to expand selection, lower price and raise the bar for exceptional customer service experience for customers. But it's also a reflection, we think. Our strong growth or accelerating growth is a reminder of just how early we are. We're just at single-digit share of a massive retail market that's projected to exceed \$550 billion in just three short years. We continue to believe that given our stage of growth, given our stage of share of the overall retail spend, our success will be determined by our execution. And we continue to be laser focused on execution on both customer experience and operational excellence.

And your second question was around Taiwan. I think generally, we can say that we're drawn to opportunities where we can break tradeoffs and provide the best customer experience at the lowest cost. That is – that's how we've been able to capture both rapid growth. Over the past 12 months, we've demonstrated our – that growth did not come at the cost of profitability or free cash flow. We've generated, as I mentioned, nearly \$1 billion in adjusted EBITDA, increasing margins by 500 bps with accelerating growth. And that comes from investments we make to break tradeoffs fundamentally at an operational level and to build the best customer experience at the lowest cost. That is our strategy in any initiative, any market that we enter. And of these opportunities, we invest only in those that we believe will generate significant free cash flows in the future. Efforts that demonstrate potential to achieve both a meaningful customer experience and significant free cash flow in the future earn their way to more significant investments. And as you point out, we've also unflinchingly discontinued investments that have not demonstrated the potential to achieve these objectives in the past. What we've seen so far in Taiwan strengthens our confidence and reinforces our hypothesis. We will continue to test, iterate and learn, but we will maintain this framework and will continue to operate by the tenets that we shared. Shortly after we went public, we publish these every quarter. The same tenets, those – that framework of rigor and discipline will remain unchanged as we pursue opportunities in different markets and different initiative areas.

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

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