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Coupang, Inc. (CPNG)

Q1 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 First 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 first 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 reconciliations 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, Chairman & Chief Executive Officer, Coupang, Inc.

Thanks, everyone, for joining us today. Before we dive in, here are five takeaways from a strong start to 2024. First, we continue to deliver results because we focus on what matters most, customer experience and operational excellence. Second, we're still single-digit share of a massive retail opportunity in Korea and an even smaller share of Taiwan's. Third, newer services like Rocket Fresh and Fulfillment & Logistics by Coupang or FLC are gaining momentum. Offerings like these enable us to expand selection on Rocket exponentially for customers and provide critical support to suppliers, particularly small and medium enterprises or SMEs, by giving them access to our Rocket infrastructure and network.

Fourth, our Developing Offerings are making significant strides, meeting our milestones, and in many cases, performing ahead of plan. Finally, we continue to invest in infrastructure and WOW benefits to raise the bar again and again for what customers should expect as their standard experience. We'll be relentless in our pursuit of new moments of WOW for customers across selection, price and service.

Now, some numbers to highlight our performance at the start of the year. In Q1, our revenues increased 28% year-over-year in constant currency, or 23% excluding Farfetch, which we began consolidating at the end of January. And adjusting for the FLC accounting change we made beginning in Q2 of last year, these Q1 revenue growth rates would have been over 10 percentage points higher. That robust growth was primarily driven by the increase in spend of all of our existing customer cohorts, even our oldest.

Our Product Commerce active customers also grew 16% year-over-year. Newer customers naturally spend less, but their spend levels have followed the same trajectory of older customers over time. While new active customers were not the primary driver of this past quarter's revenue growth, the rising number of new active customers should contribute more to growth for the business in the years ahead.

The growth of our Fresh offering was also notable this past quarter, growing 70% year-over-year in units sold. Customers are attracted to what we believe is the widest assortment of fresh goods in the market, low prices, high quality, and a free-shipping threshold of just \$11. This is the best free-shipping program for online grocery that we know of in the world. And to top it off, we guarantee that your order placed by midnight will be in front of your door before 7:00 AM in the morning.

We're also proud that Fresh provided critical support to farmers and fishers by increasing the inventory we purchase directly from them, while also delivering significant savings in both time and money to customers.

We continue to see impressive growth in FLC, which recorded a 130% increase in units sold year-over-year. As a result, the assortment available to customers with the convenience of overnight, same-day or next-day delivery is expanding with each passing day. And FLC is providing critical support to thousands of merchants who are able to grow faster by selling their products with Rocket service levels without investing in prohibitively expensive infrastructure and technology. FLC sellers, over 80% of whom are SMEs, have seen their sales on average more than double within 90 days of converting to FLC.

And on Developing Offerings, we've been pleased with our execution and progress. We've consolidated Farfetch into our Developing Offerings starting this quarter. Our journey at Farfetch is just beginning and the team is focused on generating close to positive adjusted EBITDA on a run-rate basis by the end of the calendar year.

On Eats, customer adoption is accelerating. In the month of March, when Eats launched its free delivery program, Eats recorded the largest year-over-year increase in customers and orders in its history. We continue to make progress in Taiwan, where we're working to make meaningful trade-offs for customers. We're also providing access to wide Korean selection and helping over 21,000 Korean suppliers export their products to the Taiwan market over the last year. It's early days in Taiwan, but we're as excited as ever about its potential.

While we're further along in Korea, it's important to note that we're still just single-digit share of a massive and highly fragmented \$560 billion commerce opportunity. New China commerce entrants remind us that barriers to entry are low and consumers can switch shopping options faster in retail than in almost any other industry, within seconds and with a swipe of the finger. Customers cast a new vote with every purchase they make and will not hesitate to spend their money at another venue they deem to be better. We have to win their vote each and every time by offering them the best selection, price and service. And we strive relentlessly to make that value proposition better every day.

To that end, we plan to continue investing billions of dollars in CapEx over the next several years to strengthen our fulfillment and logistics infrastructure. We aim to increase the speed of delivery across the market and make free delivery available to even the most remote corners of Korea, including secluded islands and mountain settlements that currently do not have access to our fastest delivery options. That investment in infrastructure will help Korean manufacturers and SMEs get even better service levels for their products on Rocket.

We're also deepening our commitment to Korean manufacturing. We plan to increase the amount of goods that we purchase and sell that are manufactured in Korea, from \$13 billion in 2023 to over \$16 billion in 2024.

Last year, we provided over \$3 billion in WOW membership benefits, including free delivery and return services and WOW-exclusive discounts. This year, we expect to expand those membership benefits even further, providing over \$4 billion in WOW-related benefits for our customers in 2024. This includes free access to exciting sporting events we've created, like the MLB season opening games we hosted between the Dodgers and Padres in Korea in March, as well as the world-class European football matches we bring live to fans in Korea each summer. We also recently began providing unlimited free delivery on Eats for WOW members across Korea to eliminate one of the biggest recurring costs for consumers in food delivery.

2024 will be an important year to strengthen our experience for customers and to expand programs that provide vital support to our manufacturing and SME partners. We remain as energized as ever to transform the lives of every customer and stakeholder we touch, to create a world where everyone wonders, "How did I ever live without Coupang?"

Now I'll turn the call over to Gaurav to review our results in more detail.

Gaurav Anand

Chief Financial Officer, Coupang, Inc.

Thanks, Bom. Q1 was a strong start to the year, as we saw sustained momentum continue across our business. We again delivered durable growth in customers, revenue, and profit, driven by our focus on providing even greater value to our customers.

Before I go through the numbers in detail, I want to remind everyone that our acquisition of Farfetch was completed earlier this year at the end of January. As a result, two months of Farfetch financials are now included in our quarterly consolidated results and in our Developing Offerings segment, with no adjustments made to any periods prior to the date of acquisition.

In Q1, our total net revenues grew 23% year-over-year, or 18% excluding the impact of Farfetch. On a constant currency basis, total net revenues grew 28%, or 23% excluding Farfetch. Adjusted for the FLC accounting change, the growth would have been 10 percentage points higher than the 23% constant currency growth rate, excluding Farfetch. The adjustment is a result of the change in FLC revenue accounting last year, from gross to net.

Product Commerce segment revenues grew 15% year-over-year in Q1 on a reported basis, or 20% in constant currency. Adjusted for the FLC accounting change, the growth rates would have been over 10 percentage points higher. Our growth rate continues to compound at high multiples of the growth rate of the total retail spend in Korea, which grew at 2% this quarter.

We observed increasing spend by all of our cohorts, even our oldest, along with a 16% year-over-year increase in Product Commerce active customers, as we added 2.9 million active customers over the last year. This demonstrates the tremendous value that customers come to expect from Coupang as we continue to make significant investments to provide the broadest selection, the fastest, most reliable delivery at the lowest prices.

Product Commerce segment revenues per active customers grew 3% year-over-year in constant currency. This includes the short-term dilutive impact of large number of new Product Commerce active customers we have added over the last two quarters, as well as the impact of FLC accounting change. We believe a large amount of future growth will continue to come from the spend of newer customers converging to the much higher spends of the older customer cohorts.

We continue to see exciting momentum building in our Developing Offerings segment, where segment revenues grew over 330% year-over-year, or 134% excluding Farfetch. On a constant currency basis, Developing Offerings segment revenues grew over 340%, or 143% excluding Farfetch.

Q1 produced a record \$1.9 billion in gross profit, with a gross margin of 27.1%. Excluding Farfetch, we delivered \$1.8 billion in gross profit with a margin of 26.5%, a margin improvement of 200 basis points year-over-year and 90 basis points quarter-over-quarter.

Product Commerce gross profit increased 31% year-over-year, and gross profit margin increased 100 basis points quarter-over-quarter to 28.3%. Our margin improvement continues to be driven by investments in process, technology, and automation, as well as further optimization in our supply chain and the scaling of margin-accretive offerings, including ads and FLC.

OG&A expense as a percentage of revenue increased 390 basis points this quarter versus last year. This change was primarily due to the inclusion of Farfetch, whose expenses also include \$58 million of onetime cost this quarter relating to the acquisition and subsequent restructuring activities.

We generated \$59 million of income before income taxes and \$5 million in net income attributable to Coupang stockholders this quarter. This resulted in diluted earnings per share of \$0.00. Excluding Farfetch, net income

attributable to Coupang stockholders was \$98 million for the quarter and diluted earnings per share would have been \$0.05.

Our consolidated operations generated \$281 million of adjusted EBITDA this quarter. This does not include the onetime costs relating to the acquisition and subsequent restructuring activities in Farfetch. The Q1 adjusted EBITDA margin was 3.9%, which was favorably impacted 30 basis points from the accounting change in FLC. Adjusted EBITDA over the trailing 12-months was \$1.1 billion with a margin of 4.3% this quarter, representing 100-basis-points improvement year-over-year.

Excluding Farfetch, we recorded \$312 million of adjusted EBITDA this quarter and \$1.1 billion over the trailing 12 months. This resulted in a trailing 12-month adjusted EBITDA margin of 4.5%, 110-basis-point improvement year-over-year. We believe we are still far from realizing the full margin potential of our business and are confident in our ability to continue expanding consolidated margins on an annual basis this year.

Product Commerce segment delivered \$467 million of adjusted EBITDA, an increase of 62% year-over-year, and a margin of 7.2%. This represents a margin expansion of 210 basis points over the last year and includes a 60-basis-points benefit from the FLC accounting change. The growth in margin continues to be driven by further operational efficiencies, improvements from supply chain optimization, and contribution from the growth of our higher-margin categories and offerings.

Our Developing Offerings segment adjusted EBITDA loss was \$186 million, increasing \$139 million year-over-year. This was driven by our increased level of investments in these early-stage opportunities, as well as a \$31-million impact from the consolidation of Farfetch.

Last quarter, we provided guidance that we anticipate incurring adjusted EBITDA losses in Developing Offerings of approximately \$650 million in 2024, excluding Farfetch. With the addition of Farfetch in Developing Offerings, we now estimate that our 2024 adjusted EBITDA losses for Developing Offerings will be around \$750 million. We also anticipate that Farfetch will reach close to positive adjusted EBITDA run rate by the end of the calendar year.

We ended the first quarter with roughly \$5.6 billion in cash, increasing 35% over last year. This was a result of generating \$2.4 billion in operating cash flow and \$1.5 billion of free cash flow over the trailing 12 months.

This quarter, we saw an increase in effective income tax rate driven by consolidation of pre-tax losses in Farfetch. With the inclusion of Farfetch, we now anticipate we'll experience a temporarily high book tax rate between 95% to 100% in 2024. This is just an accounting tax rate as we expect our cash tax obligations to be closer to 20% to 25%, excluding Farfetch losses. Over the long-term, we expect to normalize to an effective tax rate closer to roughly 27%.

Shortly after quarter end, we repurchased \$178 million of Class A common stock from one of our early-stage investors. We are continually evaluating our capital allocation strategy, assessing various opportunities, including share repurchases, to generate long-term shareholder value.

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

QUESTION AND ANSWER SECTION

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

Eric Cha

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

Q

Thank you for the opportunity. First off, just wanted to say the guidance on Farfetch is much appreciated. It should be very helpful for the investment community. On that note, my first question is, could you maybe elaborate on the long-term strategy on Farfetch? We understand that the initial step is to take your positive adjusted EBITDA on a run rate basis by year-end, but just wanted to see if we can get more details on your long-term strategy and what sort of opportunities you see with the platform?

The second question is around Taiwan. Will Taiwan eventually mimic the end-to-end logistics strategy it has done in Korea as this would be the key differentiating factor? And are there any Taiwan-specific factors that impacts or dictate the level of CapEx if Coupang does decide to build out its own logistic network there? Thank you.

Bom Kim

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

A

Hi, Eric. Thanks for the questions. On Farfetch, we're very early in our journey. We just completed our acquisition at the end of January. And our ruthless prioritization at this moment is to stabilize Farfetch without compromising our level of service and value to customers. As we've mentioned, we've begun executing to that plan and we anticipate that Farfetch will achieve close to positive adjusted EBITDA on a run rate basis by the end of this calendar year. It's a bit early to be discussing our mid or long-term strategy, but we look forward to sharing more after we reach that important milestone.

On Taiwan, as with any new context, there are important similarities and some meaningful differences. I can say we're fortunate to be able to leverage a lot of what we've built in Korea over many years, everything from our selection, learnings from years of building processes and optimizing fulfillment and logistics, supply chain optimization, the advanced technology we've built and refined over a decade, they're all helping us to scale faster in Taiwan, and we expect they will also help us reach profitability there faster than we did in Korea. While we're excited about applying what we've learned, we're also – we'll seek out new solutions when appropriate to create meaningful differentiation of customer experience, and also to seek out meaningful returns for our shareholders.

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

Stanley Yang

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

Q

[indiscernible] (21:47). My question is about the Developing Offerings loss guidance. You raised the guidance from \$650 million to \$750 million. So is this incremental \$100-million increase driven by Farfetch only or any other factors included? My – the other question is actually when it comes to your existing Developing business segment, the adjusted EBITDA loss seems to be stabilizing at current level. When do you expect the loss from the Eats and Taiwan to start declining?

Gaurav Anand*Chief Financial Officer, Coupang, Inc.*

A

Thanks, Stanley, for your question. The increase on guidance that we have provided is primarily from – is pretty much from Farfetch. So, we expect Farfetch to add on about \$100 million to our adjusted EBITDA losses for the year. By end of the year, we expect it to hit a run rate of breakeven or positive. We integrated Farfetch into Coupang only end of JAN and we have made some massive restructuring changes there. And as Bom mentioned earlier, we are very ruthlessly prioritized to hit a bit of positive there. So, all of the Developing Offerings are on track or above expectations. So, we are good there.

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

A

Yeah. I'll add on, Stanley, that as we've shared, our Developing Offerings are making positive strides. They're meeting our milestones, many cases, performing ahead of plan. And it's important to note that even with these investments, we expect to continue expanding our consolidated EBITDA margin on an annual basis this year, and we'll continue to be disciplined with our investments. Our goal and our objective is – will always be to maximize long-term free cash flow for our shareholders and we'll continue to operate with discipline and within the operating tenets that we've shared with you every quarter.

Operator: Your next question comes from the line of Seyon Park. Your line is open.

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

Q

Hi. Thank you for the opportunity. I have two questions. The first is on the share repurchase that the company conducted recently. I think it has come as a bit of a positive surprise, and just kind of wondering how you're thinking about share buybacks going forward. The sell-downs we've seen from SoftBank have obviously been a bit of a hurdle for investors. So, the fact that you are starting to do repurchases comes, clearly I think, as a welcome sign. Should – will you be conducting these kind of repurchases from or is it possible to do so from SoftBank directly or would it really be more in the form of an open kind of repurchase? It is, I think, the first question that I wanted to ask.

The second question is on advertisement. I know this has been an initiative that the company has been pushing for, I think the last year and a half or so. And I just wanted to get maybe qualitative comments as to how far that progress has been, whether it's still early innings, what kind of response that you've been seeing from your merchants, and what the plan is maybe for the near to the medium-term, would be greatly appreciated. Thank you.

Gaurav Anand*Chief Financial Officer, Coupang, Inc.*

A

Thanks, Seyon, for your question. As you noted, in April, we repurchased and canceled about \$178 million of our Class A common stock from one of our early-stage investors. Our strategy for capital deployment remains the same. We continuously assess various opportunities, including share repurchases, to generate what – and how we can drive our long-term returns for the shareholders.

As for SoftBank, they've been a good partner and we continue, and they're one of our largest investors and we continue interacting with them. But at a high level, we are evaluating multiple opportunities at the same time and would make decisions on what's best for our long-term shareholders.

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

A

On the advertising front, I think, as you mentioned, it's an important area of investment innovation for us. It continues to grow significantly faster than our overall business. It's still a very small percentage of our overall transaction volume and lower than the levels we see at our global peers. We're in the – still in the early stages developing the full range of tools and services to provide the best experience on that front for both customers and advertisers. Again, we see strong growth, adoption, significant potential, but we're still early in that journey.

Operator: Your next question comes from the line of Jiong Shao. Your line is open.

Jiong Shao*Analyst, Barclays Capital, Inc.*

Q

Thank you very much for taking my questions. Congrats on the very strong results, despite it's a bit messy with the Farfetch consolidation. Two questions from me, you talked about a growth last time for 2024 to be sort of consistent with last year's growth. And I think Q1 growth, if you adjust for the FLC with constant currency growth rate, I think you continue to accelerate a higher growth rate than the quarter before. I think this is the fifth quarter consecutively, I think for the acceleration. With this kind of growth accelerating, any comments about the 2024 sort of a revenue growth outlook, excluding Farfetch, obviously?

The second question is on the Eats. I think you talked about the very strong growth for Eats, especially after you sort of launched a free delivery with the bundled order for the WOW members. Previously, you talked about the Eats contribution margin, I think it's breakeven to positive, with a 10% discount for the WOW members. Now, you don't need to do 10% discount, but it's kind of free delivery, so you have plus or minus. Could you talk about compared to the previous 10% discount, but pay-for-delivery version, what's the unit economics looks like now for the sort of free delivery side of the Eats segment? Thank you.

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

A

Thank you, Jiong, for the question. I think it's important to see our growth in the longer-term context. We certainly look at it that way rather than looking at it in a short window. The growth you see each quarter, the acceleration you see is not necessarily a reflection of any levers we pull within the past few months. It's driven by and represents customers' adoption of years of investment in the best experience at the lowest price across the broadest assortment. And we continue to make such investments, especially around selection, where we're focused on adding more assortment that customers want, and increasing delivery speed for Rocket.

One example of that selection, by the way, is the private-label offerings that we've – we're providing for customers. Private-label offerings are a small fraction of our overall sales, but have been very popular with our customers and our suppliers, particularly SMEs. And SMEs supply nearly 90% of our private-label units sold. And in addition to saving customers money by directly offering lower-priced items, private-label also helps lower prices more broadly for customers by helping SMEs compete with larger manufacturers. And we're excited that our private-label offerings continue to help customers save money, increase competition to lower prices, provide critical support and growth to SME manufacturers and suppliers in the market. Initiatives like that have really broadened our selection and deepened the value that we provide for customers.

And I think another reason that you see our strong growth persist, in the larger context, we're still in the single-digit share of a massive and highly fragmented \$560-billion commerce opportunity. And you'll see that our growth is not driven by one segment. It's really driven by broad spend increase across all of our cohorts, even our oldest,

which we believe reflects the appetite that customers have to buy even more on Coupang if we can provide better selection at low prices and fast delivery. Our strategy and the drivers of our growth remain consistent with what we've been focused on and have been investing in for over the past decade.

I think to your second question on Eats, as we've pointed out, free delivery has really unlocked a lot of growth for Eats. We saw the single largest increase in orders and customers in the history of Eats. Eats continues to be unit economics positive, excluding onetime merchant acquisition costs. And the majority of WOW members are still not on Eats, so we have a huge opportunity ahead of us. And we're proud that we've all shared in this era of zero delivery costs, even for restaurant orders. We began by offering zero delivery costs in general merchandise, then in cold-chain fresh deliveries. And now, we've extended that even to restaurant orders. And we're just delighted by the response our customers have shown us to date. And we'll continue to focus on breaking tradeoffs and providing the best experience in restaurant delivery and in commerce more broadly.

Operator: [Operator Instructions] Our last question comes from the line of James Lee. Your line is open.

James Lee

Analyst, Mizuho Securities USA LLC

Q

Great. Thanks for taking my questions. Two over here. First, can you guys talk about your AI investments? Are you building applications on your existing foundational models or are you training on your own? And can you also talk about maybe some of the use cases that differentiate your offering?

And secondly, I think, Bom, you had mentioned about new China entrants, and just curious about what you're seeing here, which category are you seeing the most overlap? And also, any responses you guys initiated, for example, maybe sourcing more from Chinese suppliers? Thanks.

Bom Kim

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

A

Hi, James. Thanks for your questions. First on AI, we are exploring both fronts, as you mentioned, foundational models as well as our own. Machine-learning and AI continues to be, have been a core part of our strategy. We've deployed them in many facets of our business, from supply chain management to same-day logistics. We're also seeing tremendous potential with large-language models in a number of areas from search and ads, to catalog and operations, among others. There's exciting potential for AI that we see. And we see opportunities for it to contribute even more significantly to our business. But like any investment we make, we'll test and iterate and then invest further only in the cases where we see the greatest potential for return.

On competition that you mentioned, retail has been, commerce in general has been a very competitive market. It's always been that way since we started. We've always had many competitors, constant stream of new entrants, and the Chinese commerce players are – that you mentioned are some of the latest to enter the market. Again, I want to note that we still have just single-digit share of a huge \$560-billion commerce opportunity. It remains fragmented. Customers are constantly shopping around to find the best selection, price, and service, and customers can compare and purchase at multiple retailers with a swipe of a finger.

So, we have to continue to invest and innovate to provide the best experience to win their purchase every single time. We have to win customers by creating new moments of WOW. That's what's mattered in the past. That's what will continue to matter in this competitive market. And we believe that our success will be determined primarily by our execution on that front, on improving customer experience and operational excellence.

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

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