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Earnings Call

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Call Participants

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Presentation

Operator

Good morning. My name is Becky, and I'll be the conference operator today. At this time, I would like to welcome everyone to the Bowman Consulting Group First Quarter 2025 Conference Call. [Operator Instructions] Please note that many of the comments made today are considered forward-looking statements under federal securities laws. As described in the company's filings with the SEC, these statements are subject to numerous risks and uncertainties that could cause future results to differ from those expressed, and the company is not obligated to publicly update or revise these forward-looking statements.

In addition, on today's call, the company will discuss certain non-GAAP financial information such as adjusted EBITDA, adjusted net income and net service billing. You can find this information together with the reconciliations of the most directly comparable GAAP information in the company's earnings press release filed with the SEC and on the company's Investor Relations website at investors.bowman.com. Management will deliver prepared remarks, after which they will take questions from research analysts. Replays of the call will be available on the company's Investor Relations website.

Mr. Bowman, you may now begin your prepared remarks.

Gary P. Bowman *CEO & Chairman*

All right. Thank you, Becky. Good morning, everyone, and thanks for joining our first quarter earnings call.

Bruce Labovitz, who is our CFO, he's with me here this morning, as always.

So before I give my overview of the quarter, I want to welcome our investors, employees and Virginia Grebbien, who recently joined our Board of Directors. Virginia has spent over 30 years in the public and private water sectors throughout North America. She's a former tenured C-level executive with Parsons and also at several large municipal water districts in Southern California. Virginia is filling a Board vacancy. We're really fortunate to have her join our Board as an Independent Director.

I'm going to start today's call with some introductory remarks, and Bruce will cover our financial performance. I'll end the call with closing statements before opening it to Q&A.

So turning to Slide 3. We're pleased to report a very strong start to 2025 and our best performing first quarter on record in terms of bookings, gross revenue, net service billing and cash conversion. Overall, the first quarter was a continuation of the momentum we saw building over the course of the second half of 2024. We had another quarter of exceptional new order activity in Q1. Net service billing grew by almost 17%, just surpassing \$100 million. We also more than doubled organic revenue growth from what we reported in Q1 of last year. Importantly, our record bookings during the quarter were well balanced across all our markets, which resulted in roughly a 27% year-over-year increase in backlog to almost \$419 million, which is \$20 million over Q4. Once again, we reported a book-to-bill ratio of well over 1.

With that, I'm going to turn the call over to Bruce to discuss our strong financial performance for the quarter. Bruce?

Bruce J. Labovitz *Executive VP & Chief Financial Officer*

Thanks, Gary. I'll start with a quick reminder before we get started that unless otherwise specified, when I refer to this quarter or the quarter, I mean Q1 2025, and when I refer to last year, I mean Q1 2024.

All right. Let's turn to Slide 4 to review the quarter's results. Gross revenue was up 19% to \$112.9 million compared to \$94.9 million last year, and net service billing was up 17% to \$100.1 million from \$85.7 million last year. We continued to maintain a net to gross ratio in the high 80s, which means our growth is derived from work produced by our workforce and not simply from increasing outside subs or pass-

through sales. Our growth strategy emphasizes a commitment to maintaining a high net to gross ratio because we believe that internally generated revenue is the foundation of high-margin long-term organic growth and free cash flow.

Gross margin increased slightly to 51.4% from 50.6% last year, a sign that our labor was more efficient this year as compared to last year. SG&A expenses were down 240 basis points and 170 basis points as a percentage of gross revenue and net revenue at 44.7% of gross revenue and 50.5% of net revenue. Last year's labor realignment and refocusing efforts are paying utilization dividends now, and we believe the reductions in overhead as a percentage of revenue foreshadow continued margin expansion as the rate of revenue growth throughout the year will exceed that of labor growth. While our net loss was essentially flat at \$1.7 million, pretax net income improved significantly from a loss of \$5 million to a loss of just under \$1 million. While it's not where we want to be or expect to be, it is a significant improvement over last year and is a solid indicator of improved performance.

Adjusted EBITDA was \$14.5 million this quarter, up 19.6% compared to \$12.1 million last year. Adjusted EBITDA margin on net revenue was 14.5%, up 30 basis points from 14.2% last year. While this quarter's margin is lower than the indicated midpoint of our outlook, we are confident that higher quarterly revenue during the remainder of the year, combined with generally stable labor and overhead levels will yield margins sufficient to compensate and enable us to meet or exceed our full year margin guidance.

Let's turn to Slide 5. Gross revenue in the quarter continued to diversify with every sector growing year-over-year. Transportation grew 30%, accounting for approximately 21% of revenue, up from 19% last year. Power and Utilities grew 16%, accounting for 19% of revenue, down around 0.5 point from last year. Building Infrastructure grew 6%, accounting for roughly 49% of revenue, down from 56% last year, and Emerging Markets grew 118%, accounting for 11% of revenue, up from 6% last year. As we mentioned in the recent year-end call, we are now classifying revenue from the Surdex acquisition more specifically based on end customer. This may make year-over-year comparisons of Emerging Markets a bit challenging.

Let's turn to Slide 6. The overall growth of organic net revenue in the quarter was approximately 6%, doubling last year's growth of organic net revenue. Organic growth this quarter was led by Transportation at approximately 15%, followed by Emerging Markets at 10%, Power and Utilities at 6%, and Building Infrastructure at 2%. Given what we know about the composition of our backlog and the as yet unrecognized organic growth embedded in acquisitions whose revenue is still classified as inorganic, we remain confident that we can deliver high single to low double-digit organic growth this year.

Let's turn to Slide 7. Cash flow from operations in the quarter improved considerably to \$12 million compared to \$2.5 million last year. But it's not just the absolute increase that's relevant. It's also the 83% operational cash flow conversion and 73% free cash flow conversion that are meaningful. Increasing cash flow conversion has been a commitment of ours as we've grown and achieving these conversion rates enables us to invest in value creation and anti-dilutive initiatives over time without reliance on the equity capital markets for funding. During the quarter, we repurchased \$6.7 million of common stock at an average price of \$25.10 per share. This included \$2.6 million to purchase stock granted to employees who opted to sell shares to pay taxes relating to vesting events and \$4.1 million of purchases under our \$35 million authorization.

Since the end of the quarter through last week, we've repurchased an additional \$5.3 million under our authorization at an average price of \$21.60 per share. On March 31, 2025, we had approximately 17.3 million shares outstanding, which has been reduced to approximately 17.2 million as of May 2. With \$97 million of net debt, our balance sheet remains underleveraged at 1.6x trailing 4 quarters adjusted EBITDA and 1.3x forward adjusted EBITDA. We have the strength of balance sheet and sufficient access to debt capital to execute on M&A while also making innovative technological investments in our operations.

Let's turn to Slide 8. Our backlog was \$419 million at the end of the first quarter. That's nearly \$90 million increase from last year and around \$20 million from the end of last year. Our backlog generally provides visibility to revenue stretching up to 2 years into the future with 70% to 80% or so turning within 12 months.

Let's turn to Slide 9. We remain committed to our 3-pronged capital allocation program, which balances investment between internal initiatives oriented to short- and long-term organic growth, acquisition of adjacent, complementary and consequential operations and anti-dilutive spending on share repurchases. We are committed to being a leader with respect to the application of innovation, visualization, geolocation and automation in our operations. During the quarter, we increased our primary revolving line of credit to \$140 million and expanded our capital leasing capacity to levels sufficient to support aggressive investments in technology, automation and other revenue-enhancing and margin expanding assets. We look forward to the combination of improving cash flow, a low leverage balance sheet, a commitment to innovation and a tremendous market dynamic, positioning us for a reversion to a proper equity valuation and increased shareholder returns for everyone.

With that, I'm going to call -- return the call to Gary for closing remarks.

Gary P. Bowman
CEO & Chairman

All right. Thanks, Bruce.

Now let's turn to Slide 10. As I said last quarter, our success is a result of a disciplined growth strategy that's fundamentally focused on customers, markets, services and people. As Bruce mentioned, our capital allocation strategy is a critical component of our growth that enables us to enter new geographies and markets through M&A, enables us to invest in ourselves through funding innovations and organic growth and enables us to allocate capital to support our shareholders when the market is unusually volatile or substantially undervalues us.

I'm going to close my comments today by talking about who we are and where we fit in the E&C industry because I don't use that term undervalue flippantly. Investment in Bowman is a U.S. domestic infrastructure investment with no exposure to construction risk. We're a true professional services business provider with a high net to gross ratio because we are the designers, engineers, project managers and problem solvers. We're not resellers or builders. We touch every aspect of built infrastructure that impacts real communities and real people. That infrastructure must be continually expanded to accommodate the growth of our communities and of our economy, has a finite useful life requiring it to continually be replaced and maintained. Furthermore, changing environmental conditions such as weather patterns and rising sea levels drive the need to reconfigure, relocate and fortify that infrastructure.

There's more infrastructure demands in the U.S. than there are companies like ours to do the work. While market segments within the industry may have periods of softness, U.S. infrastructure overall is a market with insatiable demand and a high degree of reliability. The intellectual property that's core to our revenue has a longevity and stability that's not subject to sudden disruption. So what contributes to Bowman's long-term value in the market? How are we different? Let's turn to Slide 11. We don't invest in heavy equipment because we don't physically build anything. This asset-light approach allows us to maintain a lower CapEx and better cash efficiency. We don't generate revenue from pass-throughs. We do the work ourselves. That means our revenue is high-quality, margin accretive, noncommodity and reflective of the value we deliver. It also gives us tighter control over execution, over customer experience and labor optimization, which results in a highly defensible business model.

We're not distracted by international work, so we don't contend with the friction of trade wars and geopolitical issues like many of our peers do. We don't directly source materials or components of our deliverables internationally, so there's no firsthand exposure to tariff-related costs or supply chain volatility. All that said, we're self-aware enough to acknowledge that some of our customers operate in tariff-sensitive sectors, and we continue to monitor for downstream impacts on project timing decisions. Currently, our exposure is minimal and well manageable. Overall, we believe we are well aligned with the priorities of the economy and the U.S. policies that favor the domestic built environment.

Summarizing the first quarter, our asset-light, high-margin business model sets us apart in all the right ways. We deliver value through self-performed work, not pass-throughs, giving us tighter control, stronger execution and more resilient margins. Our domestic focus shields us from global volatility while aligning

us with U.S. policy tailwinds that favor local infrastructure and domestic investment. With superior cash efficiency, scalable operations and a disciplined approach to growth, we believe we offer one of the more compelling and defensible value propositions in the market today.

Looking ahead, we're keeping an eye on several policy developments that could create long-term opportunities for us. An example that stands out is the proposed CHIPS Act, which reinforces the Navy's goal of expanding the fleet to at least 355 ships. We expect this kind of sustained federal investment will have a ripple effect across the industrial base, especially in engineering, infrastructure and workforce support. We currently support customers tied to the defense and maritime sectors, and we see this as an example of a space where our capabilities can add value over time. Executive orders and incentives which encourage domestic reindustrialization present future opportunities for Bowman.

We expect to actively support clients as they build, retrofit and staff new manufacturing facilities. We're already seeing activity supporting these efforts positively impacting our energy, the mining, oil and gas, marine and Building Infrastructure divisions. As we look to the rest of the year, we're encouraged by the momentum we see so far in the second quarter. We expect to see a similar growth pattern to what we experienced last year, where momentum builds through the second and third quarters with growth accelerating midyear before leveling out in the fourth quarter. Given what we know today, we remain optimistic, and we're reaffirming our full year guidance of net revenues in the range of \$428 million to \$440 million with adjusted EBITDA between \$70 million and \$76 million. This would put us in the top tier of peer performance on an organic growth and margin basis.

I'm going to close by saying thank you to all of our employees for their capacity to drown out the noise and remain steadfast in their focus on delivering for customers, for shareholders and for each other. With that, I'm going to turn the call back to Becky for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Aaron Spychalla from Craig-Hallum.

Aaron Michael Spychalla

Craig-Hallum Capital Group LLC, Research Division

Yes. Maybe first for me on Transportation, good quarter. On the order side, maybe a little lighter than the past few quarters. Could you just maybe talk about maybe timing there and just the outlook there as you look to expand into new geographies, maybe with existing clients, and then just touch on the proposed budget for the IIJA? It sounds like maybe some cuts there, but not as much on roads and bridges and things that might be benefiting your business?

Gary P. Bowman

CEO & Chairman

Yes, Aaron. Thanks. Yes, in Transportation, that's probably the sector -- it is a sector where our operations are more lumpy than others. So the outlook is strong. We have lots of large orders in the pipeline. So it's -- I'm not -- I don't see at all a slight downturn in Q1 or maybe lack of robust growth in orders as indicative of where that market is. As far as IIJA, those funds, we see them continuing to flow. Much of our work flows from IIJA funds, but much -- and more than that flows from funds supplied by gas tax, local and state funds.

Aaron Michael Spychalla

Craig-Hallum Capital Group LLC, Research Division

All right. And then maybe second on Power, good order activity in the quarter. Can you just maybe talk about some of the drivers of growth in that segment and just maybe visibility you have into kind of larger projects, multiple years of growth there and again, just some of the drivers in that business?

Gary P. Bowman

CEO & Chairman

Drivers, data centers, expanding capacity of the grid, the fortifying weather-related undergrounding and so forth. So really across the board of utility, power and energy infrastructure, strong outlook for continuing in the future. And we continue to expand our presence and expand our brand in that market. So we continue to look forward to good activity in large orders.

Bruce J. Labovitz

Executive VP & Chief Financial Officer

Aaron, it's Bruce. Also just sort of add that Transportation revenue is up, Transportation as a percent of backlog on a gross level is about -- is up, a little bit down on percentage, but slightly lower percentage on a higher base. So we -- so I think it is an indicator that, that Transportation momentum is -- continues to be very strong.

Aaron Michael Spychalla

Craig-Hallum Capital Group LLC, Research Division

Right. Yes. And then maybe last, just on M&A, been a little more quiet here lately. Just maybe an update on what you're seeing in the market kind of valuation-wise as we move forward.

Gary P. Bowman

CEO & Chairman

Really seeing the same thing. The number of opportunities is the same. It's always been. Valuation is -- it's not eased up because that's kind of good news and bad news, but it's -- the valuation is strong. So it's still a competitive market. We're very active. We have several in the pipeline along the lines of what we've

historically done, but we are really focusing, like we've said in the past several calls, more so in the past on finding larger acquisitions to drive that inorganic growth.

Bruce J. Labovitz

Executive VP & Chief Financial Officer

We've also been finding some opportunities to add large pockets of headcount through non-acquisition [acqui-hires], bringing large pockets of other organizations into ours, which sort of complement it, but it's not technically considered acquisition.

Gary P. Bowman

CEO & Chairman

Right.

Aaron Michael Spsychalla

Craig-Hallum Capital Group LLC, Research Division

All right. Congrats on continuing to diversify the business and the performance.

Bruce J. Labovitz

Executive VP & Chief Financial Officer

Thanks, Aaron. Look forward to seeing you guys at your conference later this month.

Operator

Our next question comes from Liam Burke from B. Riley Securities.

Liam Dalton Burke

B. Riley Securities, Inc., Research Division

Could we talk about the macro for a moment? You highlighted some of your business segments that are showing strength in backlog. But is there any particular end market even though you have the diversity that's showing inordinate strength?

Gary P. Bowman

CEO & Chairman

Liam, it's -- we've -- as I said in the remarks, strong new bookings in Q1, strong new bookings so far in Q2 and well distributed across all the verticals. So we're very happy to report that and see that. So there's -- well, certainly, we have a, I guess, as acute radar up as any to macroeconomic conditions. It's uncertain times. Our new orders, and what we're hearing from our customer base leads us to reaffirm our guidance and be very optimistic about a strong year. And again, I'll repeat, it's across the board. So I can't point to any single one that's necessarily stronger than the other or fortunately, no single one that's weaker than the other.

Liam Dalton Burke

B. Riley Securities, Inc., Research Division

Great. And on the capacity front, you've been able to grow into larger projects. Are you -- is there any area that you need to add assets to continue to be able to handle larger assignments?

Bruce J. Labovitz

Executive VP & Chief Financial Officer

I think as we've talked about our -- to be able to handle larger assignments, obviously, the bigger the business gets, you got 2 ways of addressing the production constraints. You can do it with sort of linear growth of headcount or accelerating investment in efficiency technology. And so we're balancing both. So we think that there is a moment in the market today, and we've talked about this in our capital allocation strategy where we can enhance productivity with tools that are coming out and becoming available, spatial orientation, geolocation, automation, iteration types of technologies we can add to the production

environment to enhance productivity to address larger project assignments more efficiently. But it also is still a function of adding headcount as you move forward. See you also later this month.

Operator

Our next question comes from Jeff Martin from ROTH Capital Partners.

Jeffrey Michael Martin

ROTH Capital Partners, LLC, Research Division

I'll just dovetail off of that last comment with respect to technology investment. My -- one of my prepared questions was how do you feel you're staffed relative to the current backlog to execute on the contracts this year? Does it require additional hiring? Are you already sufficiently staffed? And then wanted to dive into a little bit in terms of your CapEx budget for the year, technology investments. Are there particular areas that you're looking to invest this year that are already planned?

Bruce J. Labovitz

Executive VP & Chief Financial Officer

Yes. Jeff, as I think I commented in the script there, we think that we have a solidly stable sized workforce to deliver on increasing revenue throughout the year. There's always needs -- as your backlog grows and as your revenue grows, you always do need to add headcount, but I think not proportionately to the revenue growth that we're expecting throughout the rest of the year. So we do continue to -- we expect there to continue to be a divergence in the sort of the growth of labor and the growth of revenue over the rest of this year.

And we've got a really solid workforce that is technologically enabled to work share and to load balance well. So as work comes up and as schedules inevitably change and timings move, we have the ability to shift work around the system and achieve the highest levels of utilization that we're targeting. In terms of CapEx budget for the year, we are committed to making investment in systems and technology. It's an interesting environment today because a lot of what you invest in today technologically is OpEx as opposed to CapEx just because of the models of the way software and systems are sold.

But if we think about it sort of in the old-fashioned way of what do we want to invest in technologies during the course of this year, we think it warrants a slightly higher CapEx investment than sort of the normal year for the next year or 2 because we think this is a moment where you can really inflect margin and productivity through the application of assets that advance what we do, things like above and below water scanning systems that marry imagery, things like the application of AI in the iteration processes we do, things like other systems and advancements. So I think you'll see a slightly higher sort of what I would call sort of traditional -- traditionally defined CapEx, but it doesn't necessarily mean that's going to reflect as CapEx because of the SaaS business models and the way technology is sold.

Jeffrey Michael Martin

ROTH Capital Partners, LLC, Research Division

Very helpful. And then I was just curious if you could characterize the trends within your Building Infrastructure Group, maybe break it down by commercial and residential. And then separately, could you compare and contrast your project starts year-to-date this year versus maybe what you saw last year? Inevitably, you're going to see some shifting around the project starts. But have you noticed anything in particular the last several months given the heightened level of uncertainty that's out there?

Bruce J. Labovitz

Executive VP & Chief Financial Officer

We split that question.

Gary P. Bowman

CEO & Chairman

You go ahead.

Bruce J. Labovitz

Executive VP & Chief Financial Officer

I'll refer you to slide -- we sort of start with Slide 5, and we look at the distribution of revenue from a numbers point of view, right, between commercial and residential, it's roughly 50-50. I mean a little bit more on the commercial side these days. Some projects end up in mixed categories because they've got -- it isn't as straightforward a market today where an asset is strictly one thing or the other. There's much more mixed use and much more of an application in the real estate world for multiuse purpose. But that's -- the distribution is roughly the same for think of as kind of your single-family for sale, similar in office, industrial and retail as historically it has been.

Gary P. Bowman

CEO & Chairman

And Jeff, what I would compare to this time last year, it's -- I'm happy to see residential much more robust. It's certainly softening by this time last year, and a little bit of interest rate environment. I think as much as anything is like we always say we're in the inventory creation business, the slowdown depleted inventory. So we're seeing strength in both single-family and multifamily residential. And our commercial is -- it really didn't get too soft last year, and it's just as strong as it ever has. So all the prongs of Building Infrastructure market to data center is certainly strong, are showing strength thus far this year.

Bruce J. Labovitz

Executive VP & Chief Financial Officer

One of the challenges we've had last year, Jeff, was more towards mid late year, getting some of the backlog to start. And a lot of that having to do with what we think was election sort of environment. And we don't see any of that same sort of rush to project and don't anticipate that there's going to be any disruption in starts. There's been a much more -- there's been a very solid flow of backlog to start, let's say, over the last 3, 4 months. And so hoping that that's not a disruption that would incur -- occur again this year.

Operator

Our next question comes from Brent Thielman from D.A. Davidson.

Brent Edward Thielman

D.A. Davidson & Co., Research Division

Bruce, picking up on that last question, the -- in particular backlog conversion, I think you said 70% to 80% typically turns next 12 months. Does the composition of the backlog and the fact that some things seem to be taking longer to convert, should we not rely on that 70% to 80%? Or is that still a good number to think about?

Bruce J. Labovitz

Executive VP & Chief Financial Officer

Yes. I think it's always a moving target. There is no absolute formula in there. Generally speaking, we don't have projects that we book today to start 9 months from now or 10 months from now. I mean, generally, we're booking projects that are going to start within a couple of months, and we would expect there to be conversion of that backlog in a 12-month period. We are getting bigger projects. Bigger projects have longer tenures to them. So there may be projects with longer terms in the backlog. And so we're probably seeing a little bit of an extension of the life span of backlog as we get bigger. But still, whether it's 70% or 80% or somewhere in those neighborhoods, generally, that's kind of the rule of thumb of what we see happening.

Brent Edward Thielman

D.A. Davidson & Co., Research Division

Okay. And then I guess, Gary, maybe on your side, it sounds like a healthy M&A pipeline is expected. In terms of the dialogue with those targets, are you -- is some of the noise in the economy right now sort of slowing? Or do you see it potentially slowing conversion of some of the targets in the pipeline?

Gary P. Bowman
CEO & Chairman

I think you said, do we see it slowing? I wonder you said swelling or slowing. Well, we're not sensing a difference, whether it's swelling or slowing. We're not sensing a difference in our dialogue with the targets. So we're not picking up any signal that where people are maybe more apt to be out there because of, I'll say, being in a distressed situation. We're not seeing that. But conversely, we're not seeing people who say, you know what, I'm going to rethink my decision to have a transaction because of the uncertainty in the economy. So, so far, really, as far as that goes, the same, I'd say as it's always been.

Brent Edward Thielman
D.A. Davidson & Co., Research Division

Okay. Maybe last one, big picture sort of question here. I mean there's lots of comments and views on how AI might impact the professional services industry into the future. So I guess my question for you is we're a couple of years into AI being into the narrative. And I'm curious how it is impacting your business so far, if at all? Is Bowman more competitive with it? Do you expect it to be? I'd just love to get your thoughts there, Gary.

Gary P. Bowman
CEO & Chairman

Yes. It's -- we're certainly integrating AI, beginning to integrate AI into some of our operations. It hasn't changed the way we do things. It hasn't changed our position in the marketplace. So we're -- we don't find ourselves losing out on opportunities because others are more advanced. But conversely, I can't point to anything that we necessarily won because of advances in AI. So we're -- yes, we have to integrate it in, certainly, it's changing the world, but we're doing it cautiously and slowly.

Operator

[Operator Instructions] Ladies and gentlemen, as there are no further questions, I will hand back to Gary to conclude today's conference call.

Gary P. Bowman
CEO & Chairman

Great. Thanks, Becky. I simply want to conclude by thanking everyone for listening and participating in the call this morning. Thanks to all our employees who are listening again for the hard work and turning in a great quarter, and thanks for our investors for continuing to show faith in us. We'll talk to you again in several months. Good morning.

Operator

Thank you for joining us today. You may now disconnect your lines.

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