

Bowman Consulting Group Ltd.

NasdaqGM:BWMN

FQ2 2023 Earnings Call Transcripts

Tuesday, August 8, 2023 1:00 PM GMT
S&P Global Market Intelligence Estimates

	-FQ2 2023-			-FQ3 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	0.14	(0.05)	NM	0.30	0.75	NA
Revenue (mm)	81.46	82.76	▲ 1.60	88.41	331.58	NA

Currency: USD
Consensus as of Jun-16-2023 7:32 AM GMT



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Call Participants

EXECUTIVES

Bruce J. Labovitz
Executive VP & Chief Financial Officer

Gary P. Bowman
President, CEO & Chairman

ANALYSTS

Alexander John Rygiel
*B. Riley Securities, Inc., Research
Division*

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

Presentation

Operator

Good morning. My name is Emily, and I'll be your conference operator today. At this time, I would like to welcome everyone to the Bowman Consulting Group Second Quarter 2023 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 and net service billing.

You can find this information together with the reconciliations to the most directly comparable GAAP information in the company's earnings press release and 8-K filed with the SEC and on the company's investor website at investors.bowman.com.

[Operator Instructions] Replays of the call will be available on the company's investor website. Mr. Bowman, you may begin your prepared remarks.

Gary P. Bowman *President, CEO & Chairman*

Thank you, Emily. Good morning, everyone, and thank you for joining the Bowman Consulting Second Quarter 2023 Earnings Conference Call. I'm joined here today by Bruce Labovitz, our CFO, and were joined virtually by many of our dedicated employees who are listening in on the webcast.

Everything that we accomplished as a result of an extended team effort, and we're extremely appreciative of the hard work and client-first mindset exhibited by everyone associated with Bowman each and every day. During the second quarter, we welcomed some exciting additions to our organization which will serve as a solid building block for the second half of the year and beyond.

We completed 5 acquisitions, adding roughly \$36 million of annualized net service revenue and over 250 new employees to Bowman. Each of these acquisitions presented a compelling strategic rationale with respect to clients, geographies and complementary service offerings.

But more importantly, the cultures of each of these companies aligned well with ours. Cultural compatibility is key to rapid and successful integration and facilitating immediate buy-in to the tenets of work sharing and cross referrals which result in accelerated growth opportunities, promotional revenue synergies and expansion of customer wallet share.

In addition to the staff we added through acquisition, we organically expanded our workforce during the quarter by adding close to 50 professionals to ensure the timely delivery of work we've been awarded over the past 6 months and expect to deliver to customers over the year ahead.

Our pace of new orders in the quarter complemented our M&A activity in the quarter. Once again, with gross orders exceeding \$90 million, we achieved a book-to-burn ratio of greater than 1, which means our backlog grew independent of the acquisitions.

We believe our industry continues to experience strong momentum as the overall infrastructure market remains in expansion mode fueled by a positive funding and incentivized environment coupled with unprecedented demand for innovation and transformation.

I'm pleased with our ongoing progress toward revenue diversification, and I'm also encouraged by the degree of visibility we have into future demand for our broad set of services. In the second quarter, we delivered 13% organic growth.

I'm often asked how we consistently achieve well above average organic growth rates and how we approach strategic growth. The answer is we have a multi-pronged top-to-bottom all-in commitment both to continuously expanding our breadth of customer relationships and to deepening the existing relationships we are privileged to enjoy. Organic growth is supported and realized by 4 primary pillars of our culture.

First, a company-wide commitment to capitalizing on revenue synergy opportunities through full and rapid integration of the firms we acquire. Second, an unconstrained commitment to work sharing, cross referrals and utilization optimization promoted by our leadership and supported by our investments in technology; and third, a strong depth of customer knowledge and trust resulting from our long-tenured staff and an unparalleled commitment to individual and professional development; and fourth, our strong ownership culture and our compensation philosophy that focuses for rewards on broad company success while discouraging protected and siloed operations.

We believe that our disciplined adherence to these 4 foundational values enables us to consistently deliver outsized organic growth rates. I'm now going to turn the call over to Bruce to talk about our financial results, after which, I'll take a few minutes to discuss our markets, our M&A pipeline and our outlook. Bruce?

Bruce J. Labovitz
Executive VP & Chief Financial Officer

Terrific. Thank you, Gary. Second quarter was active with 5 new acquisitions to underwrite, close, account for and integrate. I'm pleased to be here today reporting on another consecutive quarter of growth and positive progress toward our strategic objectives of achieving \$500 million of annual revenue combined with above-average margins. Gross revenue for the second quarter increased \$20.4 million or 33% to \$82.8 million as compared to \$62.4 million during the second quarter of last year.

Building infrastructure represented 59% of our gross revenue for the quarter, with transportation and power each representing 19% of gross revenue. Year-over-year organic growth of gross revenue in the quarter was over 13%, which included our 2022 McMahon and Perry acquisitions, both of which have now passed their 1 year anniversary mark.

Within the quarter, for-sale residential represented approximately 11% of gross revenue. Commercial, which includes a broad collection of submarkets, including data centers, industrial parks, MEP work, quick-serve restaurants, convenience stores and big box retail accounted for roughly 27% of gross revenue. Suburban and dense urban office is not a huge component of our commercial revenue base. Year-to-date, gross revenue was up \$43.9 million or 38% to \$158.9 million as compared to \$114.9 million in the first 6 months of last year.

Year-to-date, building infrastructure represented 59% of our gross revenue with transportation and power representing 20% and 18%, respectively. Last year, at the midpoint of the year, building infrastructure represented 71% of our gross revenue, with transportation and power representing 12% and 16%, respectively. This diversification has been deliberate and the effort continues to be a focus of our growth initiatives.

Organic growth for the 6 months is 22%, again with McMahon and Perry included in the comparison.

During the first half of '23, for-sale residential represented approximately 11% of gross revenue and commercial accounted for roughly 27%. Net service billing in the quarter, second quarter, increased \$17.4 million or 31% to \$73.8 million as compared to \$56.4 million in the second quarter of last year. Organic growth of net service billing was roughly 12% in the quarter, including McMahon and Perry. Our net to gross ratio remained high at just under 90%, up about 100 basis points from last year. While this ratio will ebb and flow from quarter-to-quarter, our goal is to operate at an 85% to 90% net-to-gross ratio as we grow the top line.

Net service billing for the 6 months increased \$37.3 million or 36% to \$141.4 million as compared to \$104.1 million in the first half of last year. Organic growth of net service billing was roughly 20%, again now including McMahon and Perry. Gross margin for the second quarter was 50.4%, which was 20 basis points higher than gross margin in the second quarter of 2022. Year-to-date, gross margin was 50.6%, which is 20 basis points below the first half of 2022. These margins are in line with what we believe is a normal couple hundred basis point range, which we will experience given our current portfolio of services and assignments.

We continue to work toward overhead leverage as we build increasing scale and plateau the rise in costs associated with being a public company. Inclusive of stock compensation not accounted for in cost of goods sold, SG&A was up 200 basis points as a percentage of net revenue in the second quarter and was likewise up in the first half as compared to last year. About half of that increase about 100 basis points is attributable to increased stock compensation, with the balance being overhead labor, bonuses and fringe costs.

Completion of several integrations, including McMahon, over the past few months, will, we believe, eliminate some duplication of functionality and contribute to the scaling of margins in the second half of 2023. For the second quarter, we reported a net loss of \$600,000 as compared to a net loss of \$300,000 last year. For the first half of 2023, we generated a net loss of \$100,000 as compared to a net profit of \$1.1 million last year. This increase in net loss is attributable both to a buildup of labor in advance of work we anticipate delivering and to increase noncash compensation costs.

So turning to adjusted EBITDA. Adjusted EBITDA was up 46% in the second quarter to \$11.1 million as compared to \$7.7 million last year. Adjusted EBITDA margin net increased by 150 basis points to 15% as compared to 13.5%. For the year, adjusted EBITDA was up 38.3% to \$20.7 million as compared to \$15 million last year. Adjusted EBITDA margin net during the first half increased by 30 basis points to 14.7% as compared to 14.4%. As we add acquisitions and headcount, we continue along our nonlinear journey to a consistent high teens adjusted EBITDA margin net when we achieve our \$500 million of net service billing.

On the tax front, we continue to monitor for guidance with respect to recently adopted changes to Section 174, research and development expense capitalization rules. In the absence of clear guidance to the contrary, we continue to believe we will not be subject to capitalization of our R&D expenses based on the specific circumstances of our business. Because this is evolving tax law, and therefore, ours is an evolving interpretation, we maintain an uncertain tax position, a UTP relating to this potential liability, which reflects through our statement of cash flows before changes in working capital as deferred tax, offset by a long-term payable. We will continue to monitor and report on this consequential issue to our industry.

On June 30, and still as of today, we have 14.6 million shares outstanding, including all shares issued in connection with recent acquisitions and \$2.5 million in restricted stock awards that will vest between July 1, 2023, and December 31, 2027. We have not made any repurchases under our \$10 million stock repurchase authorization. Backlog at the end of the quarter was approximately \$295 million, up close to \$90 million as compared to June 30, 2022. Backlog revenue is made up of approximately 56% building infrastructure, 25% transportation, 16% power and utility and 3% other emerging revenue areas. Backlog is up over \$50 million from year-end 2022, which is in part from acquisitions and in part from sales continuing to outpace revenue.

Last week, we announced the closing on a first amendment to our amended and restated credit facility with Bank of America, what we refer to as our revolving credit facility or a revolver. The primary change to the revolving credit facility was an increase in the maximum borrowing capacity from \$50 million to \$70 million. This increased availability gives us additional flexibility in our M&A program. As of June 30, we had just over \$21 million outstanding on the line with \$9 million in cash reserves for a net of \$12 million. The second quarter involved an extra payroll period with the final payroll falling on the last day of the quarter. While this didn't affect GAAP results, the timing did add to the amount outstanding under the revolver at the end of the quarter. The revolver is what's called a zero balance sweep, so the balance ebbs and flows daily. As of today, the outstanding has been reduced under \$18 million or around \$9 million on a net basis.

Net debt at the end of the quarter was \$61.2 million, which resulted in a leverage ratio of 1.5 on trailing fourth quarter's adjusted EBITDA and approximately \$1.2 million on the midpoint of forward guidance. Cash flow from operations was \$2 million, which included approximately \$13 million before working capital with \$10 million being expended toward changes in working capital.

In connection with the 4 new acquisitions added since our last conference call, we are increasing our net service billing guidance from a range of \$285 million to \$300 million to a range of \$300 million to \$315 million. We're also increasing and tightening our guidance for adjusted EBITDA from a range of \$44 million to \$50 million to a range of \$47 million to \$52 million. This accounts for approximately \$14.5 million of net revenue and \$2.5 million of adjusted EBITDA projected from new acquisitions based on the timing of the closings. With that, I'm going to turn the call back over to Gary for his concluding remarking.

Gary P. Bowman
President, CEO & Chairman

Thank you, Bruce. I'm going to turn briefly to our markets and our M&A pipeline before turning the call back to Emily for questions. As I mentioned, we continue to make good progress toward achieving market growth rates and revenue diversification. This quarter, we continued to deconcentrate our presence in the building infrastructure space while growing both our transportation and our power and utility services businesses. Over the course of 1 year, we've reduced building infrastructure revenue as a percentage of total revenue from just above 70% to below 60%, while growing our overall revenue base by 40%. At the same time, transportation revenue grew by 141% and nearly doubled its contribution to our gross revenue from 11% to 20%.

Power and Utilities grew 60% year-over-year while increasing its total revenue contribution to gross revenue by nearly 20%, growing from 15% last year to 18% this year. I'm particularly encouraged by several awards we received this quarter. On the utility front, we expanded our relationship with Southwest Gas into Nevada. We've had a terrific long-standing partnership with Southwest Gas, and I'm appreciative of their confidence in us and with the great work our team has done for them.

On the renewables front, we're continuing to win substantial solar infrastructure and battery storage projects. We also continue to see the impact of early-stage planning for infrastructure build funded projects with new large and midsized DOT projects. On the building infrastructure front, we continue to experience strong demand for data centers and our homebuilding customers feel that they've seen the market bottom out and are experiencing much stronger new home demand so far this year than their business plans anticipated.

Our Quick Service Restaurant clients are keeping us busy as they reconfigure their sights to accommodate changing customer habits and we are seeing substantial renewed activity in big box retail.

While we continue to diversify our verticals, we're also concentrating on developing and expanding our services in areas such as geospatial mapping and data capture, hydrology wastewater-related renewable energy solutions and digital services, including digital twinning, augmented reality and hidden infrastructure visualization.

Our strong capital position enables us to be opportunistic with respect to investing in organic service line expansion and technology advancement. We're extremely motivated to maintain a diversified but complementary portfolio of integrated risk mitigating service offerings that enable us to capture the greatest amount of customer wallet share as possible.

While we're not engaged with what is considered to be the [high-end] of artificial intelligence spectrum, we've been introducing practical artificial intelligence tools in several areas of our business. For example, we employ AI in our transportation group, where we're utilizing computer vision to assist with asset inspection and condition assessment. This technology helps our engineers and designers identify problem payment conditions and mapping integrity issues while enabling us to help our customers with their capital planning.

We're also using AI internally in combination with other technologies such as generative design, 3D modeling, data processing and GIS. These tools allow us to generate smart and intelligent data sources that help our designers make the most informed decisions possible. We don't approach AI as a replacement technology to us. It's unleashing the potential of our professional staff to utilize their learned expertise to provide better, timelier and more cost-effective solutions to our customers.

As we noted, we're very active -- we were very active in the M&A space in the second quarter, the acquisitions we have closed this year are experiencing strong business conditions, which we believe will enable them to make solid contributions to our future results. I'm pleased to have the leaders and the professional staff from Richter, Fisher, Hole Montes, MTX and infrastructure engineers to join our team. I spent a meaningful amount of my time working with Tim Vaughn, our Director of M&A on developing and advancing our pipeline of opportunities. I'm encouraged by the consistency of our opportunities and the prospect for several more acquisitions during the second half of the year. I'm confident we will once again be discussing newly completed acquisitions on our next earning call. I'll conclude by reiterating that we continue to maintain a positive outlook towards the remainder of this year and towards achieving our long-term strategic goals over time. Emily, I'll now turn the call back to you for questions.

Question and Answer

Operator

Thank you. [Operator Instructions] Your first question comes from the line of Brent Thielman with D.A. Davidson.

Brent Edward Thielman

D.A. Davidson & Co., Research Division

Great. Gary, I always appreciate an update just on the progress you feel like you're seeing from revenue synergies, how relevant is that to the low double-digit organic growth you're seeing in the business, maybe how you've been able to leverage all the transactions you've done into sort of expanding revenue from new customers, existing customers, so forth.

Gary P. Bowman

President, CEO & Chairman

It's quite relevant. It's -- the synergies from -- our success in realizing synergies from the acquisitions is a very substantial contributor to our organic growth rate.

Brent Edward Thielman

D.A. Davidson & Co., Research Division

And then I was a little...

Gary P. Bowman

President, CEO & Chairman

Go ahead, Brent.

Brent Edward Thielman

D.A. Davidson & Co., Research Division

No. Please, Gary, you were adding to that.

Gary P. Bowman

President, CEO & Chairman

It's -- since we started on our program, it's been part and parcel of our strategy is to search -- is to maintain the cultural compatibility that was consistent with realizing revenue synergies and our culture of work sharing and revenue and referrals, cross referrals is we do that from the first day that an acquisition target comes on board. So we've been very successful in realizing the revenue synergies from acquired firms.

Brent Edward Thielman

D.A. Davidson & Co., Research Division

Understood. Okay. I appreciate that, Gary. And then I was a little surprised to see the revenue in the backlog in the transportation vertical a little lower relative to the first quarter. Is there some lumpiness to that business, completion of certain activities. Maybe just your view on the prospects for that vertical here through the rest of the year? I assume there's plenty of opportunities out there.

Gary P. Bowman

President, CEO & Chairman

You identified it. It is quite lumpy, and we have some very good prospects coming up for the rest of the year.

Bruce J. Labovitz

Executive VP & Chief Financial Officer

Brent, what you -- could you be more [supportive] of what you said you noticed?

Brent Edward Thielman

D.A. Davidson & Co., Research Division

I was referencing just the backlog quarter-on-quarter. Maybe I'm mistaken, Bruce, but...

Bruce J. Labovitz
Executive VP & Chief Financial Officer

Backlog, okay. I thought you talked about actual revenue. I thought you talked about actual revenue, sorry.

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

Yes.

Bruce J. Labovitz
Executive VP & Chief Financial Officer

You're talking about the composition of backlog...

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

Yes, just within the transportation vertical, I guess.

Bruce J. Labovitz
Executive VP & Chief Financial Officer

Sorry. Yes.

Gary P. Bowman
President, CEO & Chairman

Just the timing of orders.

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

Yes. Fair enough. And then, Bruce, thanks for the comments just around SG&A going forward. You mentioned some elimination of duplicative costs. I think you called out McMahon that among other things should be a tailwind in terms of just better SG&A leverage here. Is there something unique about that transaction and the overhead with it. I know it was a relatively larger deal for you. I'm just wondering just because the size of the other transactions you're doing are also getting larger.

Bruce J. Labovitz
Executive VP & Chief Financial Officer

Yes. There's certainly -- the difference in scale of acquisitions has impact on sort of the transition costs, right? But just more so is until an acquisition is fully integrated from a system's point of view, you're running dual systems. You're running dual accounting processes, some duplication of payrolls and duplication of the cost of auditing.

So yes, there's some relativity, but it's more the binary of, are they or aren't they, that creates some leverage opportunity. So as we're bringing some of the -- the second half of last year had some big acquisitions and a lot of activity. And as we're completing the integration, certainly we're seeing some efficiency out of that.

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

Got it. Okay. And just last one, I mean, \$36 million in acquired revenue through the first half, obviously, very active here in the second quarter. I mean any objectives for the second half of the year in terms of your acquisition program, should we sort of not anticipate the first half pace will be staying, Gary or Bruce?

Bruce J. Labovitz
Executive VP & Chief Financial Officer

Yes. We're not going to put a number on it, lesson learned. But I think that we certainly intend to continue to be active. We have said our goal is always to do as well as last year and try to exceed it but without any specific target that we're setting, we're looking

for good acquisitions. And as Gary said, we do expect to be talking about additional acquisitions by the time we get on the call in November.

So it gives you an indication that we expect to continue to be active. Very pleased with the pipeline we have out there right now. And I think directionally, Brent, generally consistent with what we have been doing, right? While we say there's opportunity for larger. The sweet spot right now is what you've been seeing.

Operator

Your next question comes from the line of Alex Rygiel with B. Riley. Alex, please go ahead. Your line is now open.

Alexander John Rygiel

B. Riley Securities, Inc., Research Division

Gary and Bruce, very nice quarter. What surprised you in the quarter, if anything, either strengthening or weakening or anything of that nature?

I'm sorry, what surprised you in the quarter? Any economic -- anything about the business that you found...

Bruce J. Labovitz

Executive VP & Chief Financial Officer

I guess a pleasant surprise is how soon it seems like the homebuilding industry has bottomed and recovered. We have seen some softening early -- late last year and early this year, but lots of optimism amongst our customer base there. So that has certainly been a pleasant surprise. And not necessarily a surprise, maybe a crystallization like I mentioned in the remarks of this trend with the Quick Service Restaurants of the continued reconfiguration. We saw during COVID, it seems to be a permanent trend of reconfiguration of their sites to accommodate this -- people aren't eating in the restaurants now, but it's more drive-through, more carryout.

Alexander John Rygiel

B. Riley Securities, Inc., Research Division

And then within the transportation business, have you started to see -- or even buildings business, have you started to see any federal funding evident yet in backlog, driving customer capital investment?

Gary P. Bowman

President, CEO & Chairman

We are. Yes, yes. It's a number of the projects that we are -- there are opportunities that we're providing proposals on that actually we anticipate closing on the next quarter or two, are driven by federal funding.

Bruce J. Labovitz

Executive VP & Chief Financial Officer

Yes, we sort of survey the groups and the project managers for directional indication, and there's certainly that sense of optimism. Remember, we're at the very early stage in most of these projects, where the predominance of the funding will come to build whatever it is. But it's the sense of confidence that the funding is available, that they will -- that unlocks the willingness to initiate the project. And so it may not always necessarily be -- it's a direct correlation of 1:1, there is a fund, that funds what we do, but it's a -- funding is in place to start the process to feel comfortable to issue the RFPs to get started with the process, and that's where we benefit the most.

Alexander John Rygiel

B. Riley Securities, Inc., Research Division

And then, Bruce, as it relates to M&A, it sounded like you suggested that there's increasing opportunities for larger transactions. Can you talk about that in a little bit more detail and any relevant sort of end markets that maybe some of these transactions are targeted at.

Bruce J. Labovitz

Executive VP & Chief Financial Officer

Yes. So as we've said, the M&A is a spectrum of large and small. I mean, we have what we think is our high-frequency sweet spot that's a little higher than last year. You've looked at the last couple of acquisitions has been in that \$8 million to \$10 million range.

And it really is where we're focused. We like these low-risk, easy-to-do impactful kinds of acquisitions. But that doesn't mean there aren't -- similar to last year with McMahon where basically you had higher dollar value acquisitions scattered in there.

So in the pipeline, there are larger opportunities. We've said that we're not out hunting for \$50 million and \$100 million opportunities; sometimes you stumble on a bear, but that doesn't mean that we're necessarily looking for one. Where we're really focused is kind of in that sweet spot of, let's call it, \$5 million to \$15 million and then a few that maybe have \$2 million and potentially \$3 million on the front of them. And a lot of this is you play the opportunities, but you hunt for the -- where the game is out the most.

Operator

There are no further questions at this time. Mr. Bowman, I turn the call back over to you.

Gary P. Bowman

President, CEO & Chairman

Thanks, Emily, and thanks, everyone, for listening to the call this morning. And thanks all the Bowman folks for continued hard work that you put in and to all our investors for the continued support. Good morning.

Operator

This concludes today's conference call. You may now disconnect.

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