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# Electrolux Professional AB (EPRO.B.SE)

Q1 2023 Earnings Call

## CORPORATE PARTICIPANTS

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### Fabio Zarpellon

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### Gustav Hagéus

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### Karri Rinta

*Analyst, Svenska Handelsbanken AB*

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## MANAGEMENT DISCUSSION SECTION

### Jacob Broberg

*Chief Communication & Investor Relations Officer, Electrolux Professional AB*

Good morning and welcome to Electrolux Professional Group Q1 Presentation. My name is Jacob Broberg, I'm heading up Investor Relations. With me, I have Alberto Zanata, the CEO of Electrolux Professional, and Fabio Zarpellon, the CFO. As – and as always, I start by handing over to Alberto.

Please go ahead, Alberto.

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### Alberto Zanata

*President & Chief Executive Officer, Electrolux Professional AB*

Thank you, Jacob. Morning to everybody, and welcome to the call. Q1 was a strong quarter, stronger from the net sales development point of view, roughly 20% up. But also stronger from the profitability margin and earning point of view. We grew earnings EBITA by 44%, with a margin that is above the 10% double-digit, 11.4%. So good quarter driven mainly by strong performance in particular in Europe and also Asia-Pac and Middle East and Africa are recovering pretty well.

In the quarter, we also improved the cash flow. Operating cash flow was positive, I would say, in the normalized range in the meaning that compared to last year, that was negative, is clearly improving. But if also compared to the past years, it is on a normalized level. Thanks to this performance, we also reduce the ratio between net debt and EBITDA.

If you look at the geography, here, we can clearly see that we had different the dynamics and they are different also by segmenting. The meaning that while Laundry grew in every segment that [ph] in every chance (03:04) so we had good development of Laundry in Europe, in Asia-Pac, Middle East and Africa and also in North America.

If I look at Food & Beverage, we have extremely good performance in Europe, I would say, even above our expectations. Very good performance also in Asia-Pac, Middle East and Africa, confirming the recovery of the regions with one exception that was China. China is still late to come back. We see right now sign of recovery in April with the good business in China. But again is later to come but in particular we had Food & Beverage declining compared to last year, sales in North America.

And this is specifically, as I said, being Food & Beverage. If we look at the performance of the Food & Beverage segment, overall, we deliver a good increase – a good sales increase, roughly 10% with a 40% increase of the EBITDA. So, also in this case, a profitable growth that mainly came from price, but also volume development, in this case, in Europe. And another important thing was the development of the mix. So, we've been able to mix up focusing and growing particularly sales of high-margin product.

Food & Beverage, and I mentioned earlier when we discussed, when we look at the different dynamics in the region, we declined sales in North America compared to last year. And this is mainly because of a specific event happening in that part of the world. And the meaning of that, in North America in 2022, due to the fact that customers and stocking dealers, at least the ones building the stock, they were concerned about the product availability. They build up stocks. Not trusting, in some way, suppliers, they build up stocks.

Now, with this normalization of the supply chains, with the performance of the manufacture back to normal in term of delivery time, all these customers are with both the chains and the distributors. They are reducing the stock. They are doing exactly what we are doing in our factories, where we have been building up stock of components and now we are going back to the normal way of managing the supply chain and the flow of the components. This is an effect of that we believe is temporary and probably going into Q2, too, but for sure it is something that is related to a specific dynamic of the market.

Things that is not affecting the Laundry business. Not at all. The Laundry business is doing very well. As I said, growing up to close to 20% and basically everywhere, in every region. Also in terms of margin, the margin improved significantly, and again, driven by price again, as in the case of Food & Beverage.

As in the case of Food & Beverage, because of the mix, in this case, we sold mainly the kind of product, providing significant benefit for what energy saving, water saving are concerned that are not only providing good advantages or competitive advantages to our customers, but are also the product that are, at the end, delivering higher margin to us.

And in the case of Laundry, also an important impact of volume, I believe. I always mention the fact that in this business, volume are super important for the expansion of the margin. And I would say that in Laundry, it is the case at proving it.

With this said, I would leave the floor to Fabio for additional comment about the financials.

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## Fabio Zarpellon

*Chief Financial Officer, Electrolux Professional AB*

Thank you, Alberto, and good morning to everybody. Since quarter two 2021, professional quarter-on-quarter has been able to consistently increase both of the top line 2021, professional quarter-on-quarter has been able to consistently increase in both of the top line and EBITA compared to the previous-year quarter. Also in this quarter overall, we increased the EBITA generation by SEK 100 million. SEK 60 million came from Food & Beverage plus 40% compared to previous year, reaching SEK 180 million EBITA generating a quarter with a margin of 9.6%.

Additional SEK 34 million came from Laundry, plus 28% reaching close to SEK 200 million in EBITA generation a quarter with a margin over 18%. For Laundry, this represents the best historical quarter or the best historical quarter one. Group common cost were SEK 38 million, roughly SEK 9 million below quarter one last year where we had the specific consultancy cost.

Alberto already mentioned about the ingredient of such EBITA improvement. Definitely, price play an important role, more than compensating the inflationary item not only related to material but also related to labor cost as such. Volume growth definitely supported the development of EBITA, in particular, in Laundry and for service in Europe.

And as Alberto mentioned, we were also mixing up in particular in the food service business in Europe, increasing in our portfolio product, the sales of the higher-margin product categories. With a stabilization also of the supply chain, we also saw a reduction of the logistic cost on sales. So, this is definitely good seeing on a going forward.

We continue to invest in the company for our future. The investment in innovation, in particular, on product development as well, of the digitalization of our processes and interface with the customer is continuing. But overall, we have reduced the weight of SG&A on sales to 2.4%, roughly 1 percentage point below the same period last year.

Income in the quarter reached SEK 190 million, or SEK 0.66 per share, meaning an increase of 23% year-over-year.

Finance net was close to SEK 40 million, clearly negatively impacted by the increase of the interest rate. When it comes to the balance sheet development, let me start with the operating working capital. Operating working capital was SEK 2.2 billion in at the end of March, an increase of 38% compared with the same period last year.

Currency translation contributing negatively with increase of roughly 7% to 8%, but also the pricing of the component and the product we have in stock negatively affected the value of the operating working capital, in particular on the inventory side.

At the same time, I expect that with stabilization of the supply chain and the action that we have put in place, in particular on the inventory, in the second part of the year we should start seeing a reduction of the rate of inventory and the overall operating working capital. Quality of the receivable is and expect that would remain good also in the rest of the year. Overall, our finance position was solid, and remain pretty solidly. Our ratio net debt on EBITDA, we closed the quarter at 1.4 times against the 1.5 times at the year end.

In the quarter, in particular, thanks to the cash available and the cash generation, we have been repaying a portion of our short term loan for roughly €35 million. And we ended up for the quarter with roughly SEK 800 million in cash, and we have a revolving credit facility fully available for €200 million, meaning that we have the means to sustain and support the development of this group going forward.

I'd like to mention about cash flow, the cash flow was pretty solid in quarter one, close to a SEK 90 million cash generation against the minus SEK 42 million of the same period of last year. Cash compared to the EBITDA generation was negatively affected by the increase in working capital, related in particular, to the support increasing receivable inventory related to the business growth.

Cash flow, as you see from the chart, is historically weak in quarter one, but as anticipated during the last call and that the message was already there for quarter four last year and confirmed in quarter one of this year, I expect a stabilization of the cash generation going forward, more reflecting a trend that you see in the start of 2021.

And with that, back to you, Alberto.

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## Alberto Zanata

*President & Chief Executive Officer, Electrolux Professional AB*

Thank you, Fabio. And now moving from the financial results, I'm also happy and proud to report that we continue to invest to bring new product. I think I mentioned at the beginning that one of the element giving us the possibility to improve the margin was the mix up, so focusing our safe efforts towards high-margin product and high margin are the product that are providing additional benefits to customers.

And during the, during the quarter, we brought to market two important products other than others, but these are the two, let me say, Hero one – one is for sure the espresso, the super fully automatic espresso machine. This is the first model of a complete line. We will complete the renewal of our fully automatic espresso machine in October. But we started with the largest model, the high productivity model. Customer reactions are very good, very positive. Sales are still are tiny compared to the overall business, but the launch of this product help also to revitalize the entire espresso coffee machine. And we are clearly mixing up coffee, selling more and more espresso and less the drip coffee that is, by the way, in line with the trend of the market. So, very good and very happy to see this product working.

The second one is also nice story, meaning that that we call it HeroDry and it is a product that have been developed with a large commercial restaurant chains in partnering with them. And it is to address the clearly need of single-use of plastic, meaning of that with this product that we are able to try in a short period of time reusable items that are [indiscernible] (16:09). So it is something that is coming in some country already, it is there. In some other, it is going to come, directed to large commercial restaurant chain. So not only them, everybody, let me say, not to use items that are throwaway, so to reuse them. It's part of the circular economy. And we've developing this product, in this case specifically here in Sweden, that with Max Burgers, the largest burger chains in this country and Coca-Cola.

This product that is very competitive because it's providing what the customer needs using less energy than other solutions, so very proud to have this one. And I see the possibility and the applicability from this product also in other customer and segments.

All in all, again a strong quarter with strong development of both of sales and EBITA and margin. All the stock is good. We are in the level of two months of sales. So this means that it makes us cautiously optimistic about Q2. Why cautiously? Because even if we see that the business of the customer of our customers. So this means restaurant owners, hotels, operators, laundry operators and so on is still good. At the same time, we clearly acknowledge the fact that cost of money is – interest rate are still high. And we have to always remember that our customer did typically to borrow money, to invest on the product that they buy from us. So cautiously optimistic, thanks to the good order stock, order intake softening compared to last year, during the past weeks. We have also to remember that last year was – I will not use it as a reference, because the order flow was skewed by the supply chain issues that forced many of our customer and the dealers, to pre-book production slots.

In addition to this one, I'm very proud of the progress we are making on the sustainability, on the target that we have. We have a target that will reduce by 50%, we are nearly there, so already 45% reductions. Our efforts are also certified by external entities. That is very good. I can, without that – make that, we are leading in some way

our industry for what concerned the sustainability. And sustainability is also paying back in term of business and sales, as I said, mainly in Laundry.

And last but not least, a continuous effort, to bring a new product to market, the product, again that are in line with our sustainability target, that are in line with our target of mixing up, and that are in line with what customer are looking for.

With this said, I turn it back to you, Jacob.

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## Jacob Broberg

*Chief Communication & Investor Relations Officer, Electrolux Professional AB*

Thank you, Alberto. And with that we open up for questions. Please go ahead, operator.

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## QUESTION AND ANSWER SECTION

**Operator:** We will now begin the question-and-answer session. [Operator Instructions] [Operator Instructions] The first question comes from Gustav Hagéus from SEB. Please go ahead.

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### Gustav Hagéus

*Analyst, Skandinaviska Enskilda Banken AB*

Q

Thanks, operator. Thanks for taking my question. First of all, if I recall correctly, you were also discussing a bit of a weakening in the order book momentum in Q3 last year. And then, it turned out that the rest of orders came in after you reported that and that the results were actually quite okay. Could you perhaps make a reference to that period versus what you see now, if there are any similarities or you think there's any differences that you can see now in terms of that order book momentum going into Q2 versus Q4 last year?

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### Alberto Zanata

*President & Chief Executive Officer, Electrolux Professional AB*

A

Yes. I think the difference that we experience in at the end of last year and in Q1 is that the weakening that we reported during the second part of 2022 was mainly referring to the European market. The reality is that Europe perform extremely well, I would say even above expectations, our expectations during the quarter. So demand remain very strong in Europe.

We saw a weakening, and I explaining also the reason, in the United States, specifically when we were talking about the chains, large chains that have been building their stock in-house that is something peculiar, I would say, and related to what happened with the supply chain in 2022, and some larger stock and dealer. We have – it's a relatively small business if I look at the overall one. But we have a distributor business of specific line and brand of products sold in the United States that is only going through larger distributors that are only stocking, particular fridges. So, when you have a fridge, when it's down, the product it is available or it is not. So, the only way to sell and to run that business is to have stock available.

They had a record year in 2022. And this was partially because the market was good but also because of this larger distributor that we are increasing significantly the stock up, being afraid not to have the product. And then suddenly, starting from the last month of the quarter and entering gain to Q1 quarter of 2022 and entering Q1, we started not to place orders, so to reduce significantly the order flow. That was the clear sign of the destocking, if

you want to call it. What I can say is that some of this one, they are restarting to replace the order. So that is the reason why I'm saying it's probably a temporary effect.

**Gustav Hagéus**

*Analyst, Skandinaviska Enskilda Banken AB*

Q

And do you have a view on in terms of how many weeks of inventory versus [indiscernible] (23:02) to have, or don't you have that type of granular insights to your dealer customers?

**Alberto Zanata**

*President & Chief Executive Officer, Electrolux Professional AB*

A

No. If we talk about our dealer and customers, I would say it's not so easy to get it with some of them. We also have such a partnership that we know also they sellout, let me say. But it's typically, it is not the case. I can tell you that our current order stock is covering the two months of sales, in average, so a big number in average. We have a couple of months of sales. If I compare the level of the order stock we have today with the order stock that we had last year, it's much lower. But again, last year was abnormal because of our inability to deliver product and the fact that all our customer they were pre-booking production. So, I have to go back to 2019 when there was a normalized level of both product delivery and demand from customer. And typically, we have 1.5 months of order stock.

So that is the reason why I'm saying, we still have a healthy order stock. And this is the reason why still being cautious, but we are relatively optimistic for what, the Q2 is concerned.

**Gustav Hagéus**

*Analyst, Skandinaviska Enskilda Banken AB*

Q

That's reasonable. If I turn to the Laundry division, a very strong quarter and also if I do my calculations correct, it's like 25% organically versus the 2019 in baseline, so clearly strong. Do you have any sense of how sort of your addressable market has developed over the same period? If you can divide it up a little bit between market share gains and then market growth, that'd be helpful.

**Alberto Zanata**

*President & Chief Executive Officer, Electrolux Professional AB*

A

I know, but we don't have indication about the market yet. We don't have indication, so I would not speculate about these things, not yet, not yet. So it is hard to say.. I believe, this industry is not the one that is super transparent with the market size and development. So, we have statistics, but they are not out yet.

**Gustav Hagéus**

*Analyst, Skandinaviska Enskilda Banken AB*

Q

Okay. And then finally for me, for Q2 was a bit weaker last year than for Laundry, can you just take us back a little bit what the comparison is and what happened in Q2 last year in order for us to sort of get a sense of what to expect this year.

**Alberto Zanata**

*President & Chief Executive Officer, Electrolux Professional AB*

A

Yes, sir. Last year, in Laundry, we had the big issue of the supply chain and meaning of that we did not receive components for quite a bit of time because China was in lockdown due to COVID. Last year, we produced the product, but they were unfinished and we have been stocking to then deliver then in Q3. So this year, we should



not have this problem in Laundry. The order stock in Laundry is good, healthy. So I don't see – hopefully nothing happens, and the facts will confirm my hope that we don't have problem with the supply chain or with the COVID lockdown, at anywhere in the world in Laundry. So the business should be on the normal level in Laundry.

Food was not or just partially affected by these issues, it was normal and let me say, if you want to call normal, challenging that everybody adding 2022 with their missing components or scarcity of component, but not the big things that happen and for Laundry.

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**Gustav Hagéus**

*Analyst, Skandinaviska Enskilda Banken AB*

Q

Great. Those were my question. Thanks.

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**Jacob Broberg**

*Chief Communication & Investor Relations Officer, Electrolux Professional AB*

A

Thank you. We have a question from the web, its Johan Eliason from Kepler Cheuvreux. With most of organic growth in Q1 coming from price, do you think full year growth can remain double-digit?

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**Alberto Zanata**

*President & Chief Executive Officer, Electrolux Professional AB*

A

I'm cautiously optimistic on Q2 because this is the order stock. The analysis about the contribution from price is spot on, in the meaning that price is contributing positively. During the quarter, we expect to remain so, also considering that the difference between the cost material will be reducing gradually.

Price is a big thing that we are monitoring, obviously, because still the price is there to cover the inflationary item, not only material. Remember that we had direct labor, we had also energy, there have been many items, but things are normalizing and there's [indiscernible] (28:29), it's something that we are looking up, we are monitoring continuously.

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**Jacob Broberg**

*Chief Communication & Investor Relations Officer, Electrolux Professional AB*

A

We have a similar question from Henrik Christiansson of Carnegie. You highlight price as positive component for Q1 more than offsetting inflationary pressures. How will the price cost dynamic play out in the coming quarter?

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**Alberto Zanata**

*President & Chief Executive Officer, Electrolux Professional AB*

A

Yeah. And I think in some way, I answered and the meaning of that. We had to keep our eyes open about the trend in the market. For the time being, as the demand remains good, we have order in-house. For during the coming months, we will look at how it evolves. There could be that due to the competitive pressure, there could be a pressure on price but we don't see this happening yet.

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**Operator:** [Operator Instructions] We have a question from Karri Rinta from Handelsbanken. Please go ahead.

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**Karri Rinta**

*Analyst, Svenska Handelsbanken AB*

Q

Yes. Thank you. Thanks for taking my question. Firstly, about the Food & Beverage business in the US. Firstly, can you remind us of how much of that is of your overall group sales? Maybe we can start with that.



**Alberto Zanata**

*President & Chief Executive Officer, Electrolux Professional AB*

A

So in the US, overall sales in the Americas was 26% in Q1. This is Laundry and Food & Beverage together. So...

**Jacob Broberg**

*Chief Communication & Investor Relations Officer, Electrolux Professional AB*

A

We don't – sorry. Jacob here. We don't – I mean, we don't disclose the figures for Food & Beverage specifically for the US. But in total, last year we had 29% of our sales in Food & Beverage and Laundry in the US. But we don't specifically call out the Food & Bev part.

**Alberto Zanata**

*President & Chief Executive Officer, Electrolux Professional AB*

A

So if you see that one, we reported the decline of the weight of the business in the Americas in Q1, because Food & Beverage decline in the United States while we grew it in Europe and in Asia Pac, Middle East, and Africa, excluding China. And in Laundry, we grew everywhere basically, but less in the Americas compared to Europe and Middle East, Africa and in Asia.

**Karri Rinta**

*Analyst, Svenska Handelsbanken AB*

Q

All right. Fair enough. And then, if we look at the growth rate that growth rate that we had 5% reported sales decline in Food & Beverage in the US. So excluding FX, that spend maybe is minus 15%, and then you have had price increases. So in volume, what's the decline in the range of maybe 25% than, I think, you alluded [indiscernible] (31:48)

**Alberto Zanata**

*President & Chief Executive Officer, Electrolux Professional AB*

A

No.

**Karri Rinta**

*Analyst, Svenska Handelsbanken AB*

Q

No, not that much.

**Alberto Zanata**

*President & Chief Executive Officer, Electrolux Professional AB*

A

Not so larger, not so larger. But we had a decline in the United States in particular, as I said, I would say, particular was beverage. Also because you have to think about the kind of business now. So due to the fact that the decline, at least, the explanation we are getting also from our people, is mainly in – due to the destocking, let me say, a factor that both dealer and chains we are doing. Clearly product with a unitary value relatively low like the beverage one where the one that have been stocking more by both chains and dealers. So, the main decline was in the beverage product. Food & Beverage, in general, went down but mainly Food & Beverage both in net sales and volumes.

We have also to consider another thing that last year in Q1, again beverage, we had the significant rollout for our chain customers that we didn't repeat this year. This year, we didn't have any significant rollout for chains in Q1.

**Karri Rinta**

*Analyst, Svenska Handelsbanken AB*



Okay. Given that, would you say that food, at least, some segments were positive in Q1 even in North America? It was [indiscernible] (33:20)

**Alberto Zanata**

*President & Chief Executive Officer, Electrolux Professional AB*



Yeah. I believe – so, some segments like the institutional business was relatively good. For us, the business, the former Unified Brand, and now we don't split anymore Unified Brand as you had the possibility to see, but one of the brand grow and that is the typical business of the product we sell to institutions. Institutions are staff canteen, hospitals, institutions in general. Schools was relatively good, so it was not bad, that business. It was mainly the business addressing the chain customers.

**Karri Rinta**

*Analyst, Svenska Handelsbanken AB*



Right. And then turning to Laundry, you did mention the energy saving solutions as one of the driver for this very strong momentum that you have in that business. Do you have any other explanations, for example, of how is the aftersales business developing firstly for the Laundry and then for the company overall?

**Alberto Zanata**

*President & Chief Executive Officer, Electrolux Professional AB*



Okay. So first the energy saving product that is one of the elements because also in Laundry price in the case of Laundry volumes. So we increase volumes, units, pieces leaving our factories. As you rightly said, the mixing up so with the energy saving solutions, all this a very good thing. So, it is a combination of all these elements that have been helping the development of the Laundry business.

**Karri Rinta**

*Analyst, Svenska Handelsbanken AB*



And the aftersales markets?

**Alberto Zanata**

*President & Chief Executive Officer, Electrolux Professional AB*



Aftersales, aftersales as a percentage compared to net sales is more or less stable. So, it didn't grow but this is typically what is happening when you have amounts with such a strong product sales. So the development of the sales was so strong that the percentage of their aftersales business remained so stable. I believe, 1 percentage point down, but a significant on that one.

We are already on the 18 percentage stable – percentage of customer care business on net sales. That even if our ambition is to go higher than that, considering the variety of products that we have in our catalog, is a good level. What we can say is that we are focusing, obviously, in developing more the consumable, that are in particular, the chemicals. And indeed the chemicals are growing very, very well, so high double digit. So very good. Is a tiny portion, but it is the one that could give us the possibility to mix up again.

**Karri Rinta**

*Analyst, Svenska Handelsbanken AB*



All right. Thank you very much. Those were all my questions.

**Alberto Zanata**

*President & Chief Executive Officer, Electrolux Professional AB*

Welcome.

A

**Jacob Broberg**

*Chief Communication & Investor Relations Officer, Electrolux Professional AB*

Thank you. We have a question from Henrik Christiansson at Carnegie again on the Web. Could you talk about China? How big China is and how this – how that developed during the quarter and what you expect going forward?

A

**Alberto Zanata**

*President & Chief Executive Officer, Electrolux Professional AB*

So today, China is a very small – very small and it was very small, very small also in 2022. So a very tiny business. Is less than 5% of the business. The point is that China, let me say, before COVID was a significant portion of our Asia-Pac and Middle East, mainly Food & Beverage business. And we are expecting to have it back. In Q1, China was still very, very small. So, I think I mentioned it, in the meaning, saying that the recovery in China was expected to really start in Q1.

A

We were all expecting to have China back after the New Chinese Year, that was the end of January. This did not happen, but they reopened. We had our people traveling to China. We have Chinese people travelling outside of China, and [ph] the restart (37:58) also moving inside. So, these are the good sign but evidently, the business didn't restart yet.

In April, here, if I look at the April, even if they are what, 20 days, 25 days, and so, quite closer because we just need three, four days to close the month. China is almost back in the month. So, it seems that the recovery that we're expecting is a four months late into the year. But I'm confident that China is back and we have a nice plan to increase the product portfolio and the localization of production, China for China during the coming months.

**Jacob Broberg**

*Chief Communication & Investor Relations Officer, Electrolux Professional AB*

Thank you. And if there are no further questions, operator, I think we will say thank you for today and speak to you next time. Thank you and goodbye.

**Alberto Zanata**

*President & Chief Executive Officer, Electrolux Professional AB*

Thank you. Bye.

**Operator:** Ladies and gentlemen, the conference is now over. Thank you for choosing Chorus Call and thank you for participating in the conference. You may now disconnect your lines. Goodbye.

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