

S&P Global

Market Intelligence

ImmunoPrecise Antibodies Ltd.

NasdaqGM:IPA

Earnings Call

Thursday, December 14, 2023 3:30 PM GMT

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Call Participants

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Presentation

Operator

Good morning, ladies and gentlemen. Thank you for joining us today for IPA's earnings call covering the second quarter of fiscal year 2024. I am Sarah, and I have the privilege of hosting this call.

Before we commence, I would like to draw your attention to the fact that our discussion today may include forward-looking statements. These statements are subject to various risks and uncertainties that could cause actual results to differ materially from what we express or imply. We strongly encourage you to review our filings with the Securities and Exchange Commission for a comprehensive discussion of these risks and uncertainties. IPA remains committed to complying with legal requirements and will update forward-looking statements only as mandated by law.

During today's conference call as well as in the accompanying presentation slides, we will be employing non-GAAP financial measures to assist investors and analysts in comprehending IPA's business performance. Adjusted EBITDA in particular, allows for meaningful comparisons and analysis of trends in our business over different periods. For a detailed explanation and reconciliation of these non-GAAP measures to GAAP measures, please refer to the Management Discussion and Analysis section of our filings on EDGAR and SEDAR.

Now without further ado, I would like to pass the floor to IPA's CEO, Dr. Jennifer Bath, who will provide an overview of our quarterly results.

Jennifer Lynne Bath

CEO, President & Non-Independent Director

Thank you, Sarah. Good morning, everyone, and thank you for joining us. IPA has consistently invested in its end-to-end antibody services encompassing discovery through development aimed at reducing the risk, cost and time needed to bring novel therapies to the clinic. Reflecting on the effectiveness of this approach, the company's second quarter financial and operational results reveal a third consecutive record quarter with revenue of CAD 6.2 million. This number represents an 18.6% increase above the same period last year.

We continue to see strong growth across several areas of our service offerings, including our laboratory B cell Select platform and our manufacturing facility with its expanded capacity. Importantly, our strategic efforts have enabled us to be successful in growing revenue while also reducing our cash burn from CAD 1.6 million in our first quarter of this fiscal year to CAD 700,000 this quarter.

Our subsidiary, BioStrand, recognized approximately CAD 165,000 of early revenue this quarter, stemming from LENSai-driven client programs as they continue to progress towards the next phase of their launch of their LENSai portal and Software-as-a-Service or SaaS platforms.

With our Talem assets, we remain committed to our strategy of driving revenue through out-licensing opportunities. I'm excited to share with you today an update that on one of our Talem assets, that was highlighted in September's earnings call, we have recently received and executed a letter of intent to engage in a material transfer agreement for that asset. We also continue to leverage Talem's other previously announced strategic partnerships, which are contributing to our contract research revenue and generating new client opportunities for BioStrand.

The macro environment for the drug discovery industry continues to be challenging. Industry-wide biotech funding is down over 60% from its peak in 2021. It is against this backdrop that we are especially pleased with our consistent revenue growth during a time when many of our peers are reporting significant revenue declines. You may ask why is IPA bucking that trend. We believe that there are several reasons why we are outpacing the industry -- that industry trend.

First, as indicated, many of our pharma and biotechnology clients are looking to consolidate their R&D with vendors that they know and trust and who have made the investments in technologies of the future. As

a result, given our breadth of services, we are capturing additional wallet share from some of our largest clients.

Second, having expanded our manufacturing footprint in Europe to meet our clients' needs, we continue to see increased demand in our antibody manufacturing capabilities. Coupled with our industry-leading B cell Select offering and based on client conversations and ongoing sales orders, which are up 83% over the same quarter last year, we are optimistic the trend in our revenue growth will continue.

In this turbulent financing market, we have focused on enhancing operational efficiencies and enforcing strategic budget reductions to manage our cash burn. As demonstrated by our consistent revenue growth over the last quarter, our cost-cutting efforts were carefully executed to support our long-term goals without compromising our growth or operations. This has included a strategic reduction in non-ROI-generating employees over the past 12 months, a decision made to streamline our cost structure while maintaining our business' momentum and effectiveness.

Our financial results reflect the success of these measures. In these first 2 quarters, we've seen CAD 10.6 million reduction in operating expenses compared to the previous year. This has been achieved in part by the completion of investments in our Talem assets and without impacting the positive cash flow generated by our laboratory division. These budget cuts are not just about reducing costs. They represent the philosophy that we have had for many years to continue to evaluate and evolve, to meet both the needs of our clients, to remain at the forefront in our field, and to be pragmatic as the macro environment continues to evolve. By concentrating our investments in these areas with the highest potential return, we are positioning ourselves for long-term growth and enhanced shareholder value.

I would like to take a moment to discuss the progress, strategy and goals of our non-laboratory subsidiaries. The BioStrand business we acquired in April of 2022 possess highly differentiated underlying technology, but was relatively early in its commercialization efforts. Since the acquisition, we have committed resources and made significant progress towards building commercial products. We believe we are in a very different position relative to many other AI and bioinformatic companies in our industry.

Our wet labs have over 600 pharma and biotechnology clients, including 19 of the top 20 global pharma companies. We have decades-long relationships with many of the most important companies in the industry. We know our clients' workflows and we understand what they demand from a scientific standpoint. The software product BioStrand is developing are designed to meet these needs. To put it bluntly, we believe we are building AI products that our industry partners actually want and need, unlike many other AI companies in the health care industry.

BioStrand plans to roll out its AI software to existing clients with secured portal access, offering an array of in silico tools and additional analytical services to further analyze their data from IPA programs. The initial focus is on seamlessly introducing clients to this platform with an emphasis on providing value and utility through advanced in silico discovery services. The gradual integration of clients is designed to familiarize them with the platform's capabilities, setting the stage for upselling more sophisticated services and tools.

The SaaS model is being designed to ultimately encompass comprehensive data management and analytical tools, making it accessible to a wider audience beyond the initial client base. This broader public rollout will follow the initial client-centric launch, ensuring that the platform is thoroughly tested and refined based on initial user feedback.

This dual approach, starting with the targeted client introduction followed by a broader SaaS rollout, is designed to ensure seamless integration into existing customer workflows. It allows BioStrand and IPA to collect critical feedback from early users, which is invaluable for the ongoing development and optimization of the platform. The goal is to support profitable growth while continuing to enhance the platform's capabilities to meet the evolving needs of clients in the dynamic field of drug discovery and development.

Much of our historical cash burn is attributable to our investments in R&D, particularly those in the therapeutic assets for Talem. It is important to note that we've completed our significant investment several quarters ago, and our current focus is now on exploring avenues to monetize these assets.

As indicated during our fiscal '24 Q1 earnings call, Talem engaged in discussions with an interested party regarding the potential therapeutic candidate for an incurable progressive disease. Based on the partner's review of Talem's most recent data, we've received and executed a letter of intent to enter into a material transfer agreement within a 6-week period. The MTA enables the partner to conduct an in-house review of the asset that is under contemplation for an out-licensing as well as exclusive rights to the asset during the duration of the agreement.

The future of drug discovery is evolving towards the integration of in silico or computer-based and wet lab processes through comprehensive integrated solutions providers. Recognizing this trend early, the company has already invested in aligning its operations accordingly, anticipating that these proactive investments will yield long-term value for our investors.

Now at a significant turning point, IPA welcomed strategic leadership changes and policy implementation. Mitch Levine, our new Board Chairman, brings valuable experience from his roles in the life science industry as well as financial management. Joining him are Dr. Barry Springer, Dirk Witters and Chris Buyse, enhancing the Board's expertise in biotech innovation, finance and public life sciences, respectively. These appointments, along with recently adopting our new majority voting policy, demonstrate our commitment to strong governance and shareholder engagement.

Now I'd like to turn it over to our Chief Financial Officer, Kristin Taylor, to discuss our financials in further detail.

Kristin Taylor

Chief Financial Officer

Thank you, Jennifer. I'll provide a brief overview of our financial results for the second quarter before touching on our financial position as of the end of the period. As a reminder, all numbers I reference are in Canadian dollars unless otherwise noted.

Starting with our revenue. For the 3 months ended October 31, 2023, we achieved revenues of CAD 6.2 million, representing a 19% increase from our revenue of CAD 5.2 million in Q2 of the previous year. Our year-to-date revenue for fiscal 2024 was CAD 11.8 million, reflecting a 20% increase from fiscal '23 year-to-date revenue of CAD 9.9 million. Supporting this growth, our Utrecht, Netherlands site achieved year-to-date revenue growth of 43% year-over-year and is benefiting from expansion efforts in Q3 of last year. Our Victoria, BC site achieved year-to-date revenue growth of 17% year-over-year and will be expanding in early calendar 2024.

We're seeing the impact of these expansion costs on our gross margin along with the new BioStrand revenue, which in its early stage [of launch] commercialization has lower margins than those targeted at full rollout. We're also seeing the impact of inflation, and we are reviewing pricing changes for the start of the calendar year as part of our overall initiatives to bolster gross margin.

Now on to our operating expenses. Our research and development expenses for the second quarter were approximately CAD 1 million, representing a CAD 4 million decrease over the same period of the previous year. This decrease reflects the completion of the investments required to build the Talem assets and now primarily represents our investment in supporting the phased rollout of our BioStrand offering.

Sales and marketing expenses for the quarter are up approximately CAD 100,000 in line with our rising revenues. And general and administrative expenses for the quarter are CAD 3.3 million compared to CAD 3.8 million for the second quarter of the previous year. This reduction reflects our strategic cost-cutting efforts.

On to earnings per share. Our growth in revenue and reduction in expenses resulted in a net loss of CAD 2.6 million or a loss of CAD 0.10 per share for the quarter. This compares to our second quarter of fiscal '23 that resulted in a loss of CAD 7.4 million or CAD 0.30 per share loss. Along with this reduction in net

loss, we also experienced a reduction in our overall cash burn. This reduction in cash burn supported us in finishing the second quarter of our fiscal 2024 with unrestricted cash of CAD 6 million versus the previous quarter end of CAD 6.7 million and our fiscal 2023 year-end balance of CAD 8.3 million. Based on this reduced cash burn, we believe our cash position is sufficient to operate our business through the second quarter of fiscal 2025.

Additionally, subsequent to the end of our second quarter, on December 8, 2023, we closed on an underwritten public offering of 1,265,000 common shares with estimated net proceeds of approximately CAD 1.1 million. While it is currently a challenging and high-cost equity environment for life science companies, we initiated the small common stock raise to address current customer demand for additional wet lab capacity and to provide additional R&D for our higher-growth BioStrand initiatives, both of which we believe support long-term value creation above the cost of capital. With that, I'll turn it back to Sarah for Q&A.

Question and Answer

Operator

Thank you, Kristin. Before Jennifer adds any closing remarks, we would like to open the floor to any questions from analysts and investors. [Operator Instructions] Your first question comes from the line of Arthur He with H.C. Wainwright.

Yu He

H.C. Wainwright & Co, LLC, Research Division

This is Arthur on for RK. So the first question is regarding the rollout of the LENS portal. Before you taking that to all IPA clients right now, what additional steps or effort you need to complete before the rollout?

Jennifer Lynne Bath

CEO, President & Non-Independent Director

Thank you for your question. This is Jennifer. I'm happy to answer that question. So first of all, one of the things that is being done here is we are still adding a couple of features to that portal for the client rollout, as it will have numerous features that the clients can use to analyze the actual data that they're getting from all of our different wet lab sites globally. We're also testing that portal internally across multiple sites to make sure that we've basically removed any bugs or any challenges that could exist during the client rollout so that we know that it's entirely ready for that push out to our clients.

Aside from that, we're actually getting fairly close to having the final portal available for the client. So it's part of the front-end user capabilities and being ready to push that in a secure environment with the username and passwords for our clients to access it.

Yu He

H.C. Wainwright & Co, LLC, Research Division

Got you. So within that in the background, how we should expect the public launch for the SaaS platform is still within the estimate you guys provided for with probably the second half of next year?

Jennifer Lynne Bath

CEO, President & Non-Independent Director

Yes. So yes, we are still on track for the same date that we previously provided. And how we envision that is after the portal has been used by our existing clients, we will continue to add additional features through that portal as well as advertising the ability for those clients to come in directly for the fee-for-service capabilities for more complex programs. And then we will roll out that SaaS platform, which is essentially a much more sophisticated version of the portal, both to our clients and then to the public.

And again, just to reemphasize that the SaaS platform in and of itself is also managing our capability for data management and data organization while also giving access to LENSai to our clients. And as I just previously mentioned, yes, that continues to be on target for the previous time frame we have provided.

Yu He

H.C. Wainwright & Co, LLC, Research Division

Awesome. Congrats on the program.

Operator

Your next question comes from the line of Will McHale with Ingalls & Snyder.

William Campbell McHale

Ingalls & Snyder LLC, Research Division

Jennifer and Kristin, congrats on the solid set of financial results. To start, I guess, just looking back at the performance of the company over the past 12 or 18 months, there have been a number of things that have been discussed on the conference call, things such as expectations around out-licensing deals and time to ramp revenue from BioStrand partnerships that haven't fully materialized as the company expected initially.

If you were to kind of give a postmortem or look back on why things haven't exactly materialized as expected, what would be the explanation?

Jennifer Lynne Bath

CEO, President & Non-Independent Director

Thank you. Thanks for asking that question, Will, because I suspect that you're not alone in having that question with regard to BioStrand partnerships and out-licensing expectations for Talem. And so while there's probably a couple of different factors, I think there's one key factor that we definitely can be confident has impacted those prospects and clients and partnerships. And a lot of that has to do with the undeniable post-COVID market slowdown.

We know that it had a very tangible impact on our partners and our clients. We observed a notable shift in their operations. Oftentimes, they shared that very directly with us. Many of them temporarily had to pause programs or pause partnerships. Many of those clients also saw consolidation in the industry and many of the pipeline companies either merged or seized operations or even delayed for their investments. And of course, those pipeline companies are our primary target for these types of opportunities.

Additionally, the challenging financial landscape also made it really difficult for the biotech firms to secure the necessary capital for in-licensing and continuing their research endeavors. So we really saw a significant slowdown in those efforts and a lot more conservative spending as a lot of those pipeline companies kind of halted those activities.

However, I think it is important to note also that there are emerging signs of a shift in this trend. We're beginning to see a gradual resurgence in activity, in conversations and investments in the sector, as indicated, I think really by the recent letter of intent received by Talem. And the change, even though it is gradual and will be gradual, I think it's a positive indication of recovery and return to more robust operations for our partners and our clients.

William Campbell McHale

Ingalls & Snyder LLC, Research Division

That makes sense, and I appreciate the color you gave in the script about the overall biotech funding environment. Hopefully, it's a change in 2024 as we move forward.

A quick question on capital allocation. The company has spent a lot of money on Talem assets and issued a bunch of shares to acquire BioStrand. Looking at those totals now are more than our current market cap, which is sort of depressing to see. But how are you guys thinking about just these investments creating shareholder value? And I guess you can also address the raise last week to what was a pretty depressed valuation. What are sort of the thought process on ROI with these decisions?

Jennifer Lynne Bath

CEO, President & Non-Independent Director

Sure. Well, this is Jennifer again. I'll take that question for you. So yes -- so first of all, I think it's essential to acknowledge that these are substantial investments we've made in Talem and for the acquisition of BioStrand. And these investments as well as the recent fundraising are at a valuation that we don't believe and may not currently reflect our intrinsic value.

So first of all, I'd like to touch this a little bit then on the strategic rationale behind these investments. Really, both Talem and BioStrand bring unique and complementary capabilities to IPA. Talem has obviously been the subject of internal investments as we've invested in assets within Talem. And then BioStrand's technologies are pivotal in enhancing our core competencies and diversifying our product offerings and are

expanding our market reach. So, really going back to fundamentally the mission that we have continued to articulate in the end-to-end services in discovery and development for BioStrand.

The BioStrand offerings are really an integral and important part of that aspect of what we are offering as we continue to listen to our client needs. And so the strategic integration of that, we really believe creates a more robust platform for potential significant synergies. We also believe this creates long-term value creation.

While the current market cap and recent fundraising reflect a momentary valuation in a volatile market, the investments in both Talem and BioStrand are projected to yield returns in the future. And that includes expanding into new markets, accelerating product development and leveraging cross-selling opportunities across our end-to-end spectrum of services. And I think that's something that we really should not overlook is that ability for us to go ahead and tie really directly into the existing clients that IPA have, which are extremely loyal and already utilizing our services at IPA, which really make a great market entry for us.

And then just lastly, with the acquisition of BioStrand and then combining that with Talem's capabilities, we do think that there are numerous different market segments and customer segments that we are able to tap into. And so it's not just about increasing revenue streams, but also building more resilient and also diversified business models for IPA.

William Campbell McHale

Ingalls & Snyder LLC, Research Division

Got it. So it sounds like you're saying the raise last week, while not at an ideal valuation, was necessary because we have to make these investments now to meet the market opportunity. Is that the gist of it?

Jennifer Lynne Bath

CEO, President & Non-Independent Director

Specifically on the raise, that's exactly right. Well, there are several opportunities that we feel are really important to capitalize on here in the short term that we really do believe provide substantial revenue returns for IPA. And in particular, the 2 that we really highlighted with respect to this decision that wasn't taken lightly with regard to the issuance of the common shares is the expansion of our facilities, in particular, in Victoria, where, again, similar to what happened in Utrecht, we are at client capacity, and we have client demand for increased number of services, increased number of programs for our clients in both B cell and also actually in protein production there in Victoria. And then the other one was -- [is] with BioStrand. That market is moving really quickly.

BioStrand is moving really quickly, and we feel it's imperative to make an investment in BioStrand for the push for the LENSai portal and the SaaS model due to the high projected return and benefits to IPA.

William Campbell McHale

Ingalls & Snyder LLC, Research Division

Got it. One more quick question. As you look at BioStrand and kind of the product road map there, how closely are you evaluating whether it's new features or functionalities in conjunction with existing CRO clients?

Jennifer Lynne Bath

CEO, President & Non-Independent Director

Can you repeat the question one more time, Will?

William Campbell McHale

Ingalls & Snyder LLC, Research Division

Sure. The question is as you look at BioStrand's product road map and kind of the different features and modules you're building, are those a result of direct requests from clients? Or kind of how do you determine exactly where the next feature or modules is going to be built?

Jennifer Lynne Bath*CEO, President & Non-Independent Director*

Yes. No, that's a fantastic question. So first of all, as I mentioned earlier in the script, we're always in very close communication with our clients. With the project leads at these industries with many of them, we have several decades of relationships with them. And they're very open and clear about what their needs are, what their pain points are. I mean going back to even the mission that we put forward with IPA with regard to the end-to-end discovery and development services, that's exactly why we did that because we were answering to these pain points that our clients had, and that's exactly what we're doing with BioStrand.

Before the acquisition of BioStrand, there were a number of areas where we were just absolutely certain that a really good AI platform could help us to address some of these needs that our clients had. And obviously, after the acquisition, it really became clear as our clients continue to articulate this, but there were several things that they were seeking. Part of it is the speed with which we're able to do some of the work that's currently done in wet lab environments and some of the work that we currently were not offering in the wet lab environment. With artificial intelligence, we're obviously able to tackle some of those requirements much more rapidly for our clients, which is one of their major pain points and one of their major demands.

But in addition to that, we've seen this real shift in the industry, too, where we've tackled a lot of the easier targets for many different diseases, and our clients are coming with more complicated targets that oftentimes just don't lend themselves very well to wet labs or require a combination of a lot of in silico tools along with wet lab. So there's 2 different things that we've heard directly from these clients that BioStrand has really initiated platforms and modules to begin solving. And so part of that is to be able to consolidate those activities, to be able to have all that in silico work done at a very high quality along with the wet lab at one location, which reduces their dependence on annual software subscription.

And then the other component of that is really introducing AI capabilities that can solve some of these problems that can't be solved in the wet lab, like targeting these much more complicated membrane-bound proteins, oftentimes that are associated with deadly or chronic diseases. And I think one of the examples we gave in the past is a fantastic example of Astellas. How do we target proteins on a tumor where there's a microenvironment that's significantly different than what you would normally find within the human body? And that's just not something that people have been able to do very well within a wet lab, and it is a solution that BioStrand is able to begin tackling with a LENSai, which is an absolute result of our desire and our history of listening to clients and understanding better exactly where they're going and what they're telling us they're going to need to be successful in the future.

William Campbell McHale*Ingalls & Snyder LLC, Research Division*

Got it. That's really helpful. It seems like for a lot of the start-up SaaS world, the biggest sort of hurdle is finding product market fit and the fact that we already have such a long relationship with clients and the CRO, it seems like we kind of already have that. So that's super exciting to hear. I will drop and let whoever is next in the line ask questions.

Operator

[Operator Instructions] There are no further questions at this time. I will turn the call back to Jennifer for closing remarks.

Jennifer Lynne Bath*CEO, President & Non-Independent Director*

Thank you, Sarah. So as we conclude this earnings call, I would like to reiterate the key points that demonstrate our strategic progress and financial resilience. In the first quarter, I discussed our strategy and related initiatives aimed at driving growth and value creation.

Now in the second quarter, we continued to deliver on these initiatives. Our focused efforts on laboratory expansion, the advancing commercialization of BioStrand and monetizing Talem are yielding tangible results. This is evident in our financial performance marked by our revenue growth of 19%. This increase is -- not only reflects our operational efficiency, but also underscores the effectiveness of our strategic decisions in a challenging and dynamic market environment.

Moreover, we've seen a noteworthy improvement in our net loss, which now stands at CAD 0.10 per share. The investments we are making today in key value creation initiatives are laying the foundation for a strong and sustainable future. We are strategically deploying our resources to areas with the highest potential for growth and returns, ensuring that we are well positioned to capitalize on emerging opportunities.

As we move forward, our focus remains on executing our strategy with precision, maintaining financial discipline and continuing to drive shareholder value. Thank you for joining us today and for your continued support.

Operator

This concludes today's conference call. We thank you for joining. You may now disconnect your lines.

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