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Kambi Group Plc (KAMBI.SE)

Q2 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

Good morning everyone and welcome to Kambi's Q2 2022 Report Presentation. My name is Mia Nordlander, I am Senior Vice President- Investor Relations and today I have our CEO, Kristian Nylén; and CFO, David Kenyon with me. They will present the quarter for you and thereafter we will have time for questions. So if you have any questions, I suggest that you either call in or that you write them in the Web here on the page.

So, over to Kristian, please present the quarter for us.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Thank you, Mia, and good morning. So, today I am planning to go through the highlights first and then hand over to David to run through all the numbers and then I come back and talk more about the Q2 in detail.

So the highlights: I would say we had a very robust financial performance against a very demanding 2021 comparatives. The tough comps, I think, first of all last year it was the European championship, and normally we would have expected a World Cup this year but that is moved to December, so the sporting calendar is quite slow this summer. We also don't have the same kind of revenues from Netherlands since our operators, pre the regulation – the re-regulation in Netherlands is still not operating. Of course we have as I will talk about later Kindred coming back into the market early in Q3. And the largest factor of course is that all numbers were still including DraftKings last year. So, our operator turnover this year is up 16% if we exclude the DraftKings' number.

During the quarter, we also achieved a key milestone with the first phase completed of separating our pricing from a core platform in what we call the Trading Gateway, which I will talk more about later. We strengthened our partner network by extending our relationship with betPARX with longer contract. We also signed Mohegan

Gaming in Ontario. And finally, we expanded in America, our Americas reach with the Day 1 launches in Canada or Ontario. We have four partners and then one more later on. We also have done quite a few launches in other countries, mainly in US and Mexico.

With that, over to you, David.

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

Thanks, Kristian. Good morning, everyone. So overall, this quarter, we saw a very strong financial performance. We continue to be profitable. We see underlying operating turnover growth and we have a powerful balance sheet. As Kristian mentioned, we saw a 16% growth in that operator turnover excluding DraftKings. And that's despite the impacts of the Netherlands regulation and the Euro soccer tournament last Q2. So very strong numbers there. And that strong turnover, allied with a margin of 8.6%, led to revenue of €34.7 million. Costs, pre-FX of €32 million were in the full cost range and they were offset to the tune of just over €2 million on foreign exchange gains relating to the revaluation of our US dollar assets. This gave an operating profit of €4.9 million at a margin of 14.1%. And our net cash position of €74.2 million gives us firepower to continue using our balance sheet to drive our strategic growth.

The next slide here is the Kambi Turnover Index. It's an aggregation of the entire Kambi networks results quarter-by-quarter. The blue columns are an aggregation of the operator turnover index, originally set at 100 when we spun off the business and the orange line is an aggregation of the operators' trading margin every quarter. This quarter, the margin was 8.6% and when we look at the comparatives that was pretty high this time last year at 9.3%, therefore, its turnover on the index is 656. As Kristian mentioned, it's a very quiet – Q2 is typically quiet from a sporting calendar perspective for many of our key sports. But of course this year there will be a World Cup taking place in Q4 and the condensed football calendar before and after that World Cup. So, some strong months ahead.

In more detail then on the operator turnover versus last year. So, the turnover went from 911 on that index to 656. Firstly, there were some big headwinds we should talk about. Firstly and by far the biggest in terms of financial impact was the DraftKings migration, which we saw after Q2 last year. That DraftKings accounted for 20% to 30% for our revenue in Q2 last year. In the Netherlands, of course, there was no activity with Kindred here in Q2 this year but we are delighted to see them obtain a license and launch in early July. And Euro 2020 was delayed to 2021 and the majority of the matches took place in Q2 last year. And again, we are very much looking forward to the World Cup taking place in Q4 this year.

Those headwinds have been offset though. There've been some growth factors here. We have new operators since this time last year. They include BetCity, JVH and RWWA. We've moved into new markets including Arizona, Connecticut, Louisiana and most recently Ontario and we're seeing growth from some of our existing operators, both in the organic growth and but also in the geographical expansion into new markets. This then feeds into the waterfall of the company revenue conversion, which sets out how our operator turnover movement results in our revenue movement versus last year. So at constant exchange rates, operator turnovers down 32% on Q2 2021 for the reasons I've outlined. Due to the dollar being stronger than last year versus the euro, this decrease was reduced to 28%. The operator trading margin of 8.6% compares to the very high 9.3% last year. And then in the other column you see a big kind of positive impacts on our revenues and there's quite a few drivers behind this one. Firstly and most importantly, our customer contracts often include tiers which charge significantly less on the upper bounds of activity. So, the lack of DraftKings and other factors impacting the NGR results in a relatively higher effective revenue share across the network overall. Secondly, we have more live events income this quarter and other fixed revenues which are not driven by the levels of operator turnover. We

also have revenues from a settlement with Mohegan Sun, which has a fixed revenue each quarter, and we have revenues from the Abios business which we acquired at the end of last year. The net effect of all these factors is a 19% decrease in our revenue in total to €34.7 million.

Lastly, I'm going to talk about the cash flow. There's a few particular points to note this quarter: Firstly, the CapEx is slightly higher than we usually see. We've had some fit-out costs in a couple of our offices. The tax impact you see on the right-hand side there is higher than normal. So, we're due a tax refund as part of our year-end tax position and that's expected to be received in Q3, but that magnifies the effects of the tax outflows here in Q2. And in terms of inflows, we received €2.6 million in relation to the option price on share options settled earlier in the year. The net effect of all these various cash flows is an increase in our cash position to €81.6 million.

And with that, I hand you back to Kristian.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Thank you, David. Okay. So, as I mentioned earlier, we have of course kept on working on our strategic work with modularization and we have, yeah, done one key milestone, what was achieved during the quarter and that is the Trading Gateway interface where we have completed the first phase. So, for the first time, we have some standalone pricing for lower-league soccer that are not done through the normal way, but we have done for many years where pricing and trading and technology was heavily intertwined and it has served us well for many years but we have a new setup. It will give us a lot of new benefits and also our customers that I will talk a little bit more about. So, we have a creation, obviously a standalone pricing functionality. We now have a setup where we can much faster develop new algorithms for different sports and tweak them and change them much, much quicker. So we will have much faster pace on our internal development.

It also gives us the opportunity to package and sell products outside of the normal fully managed service, so that's a very positive modernization effect. Also, it gives us another crucial element and that is our existing partners or future partners can now in the future be able to trade some of the sports themselves if they would like to and we can also give opportunity to other third parties so that we ourselves or our partners want to add to the pricing. So, a very crucial step for us and we're very pleased to see that it worked very, very well. And there's still a lot more work to do on this gateway but a very crucial and important first step.

Another thing that we have managed during the year – during this quarter is a new betting market, where we can bet on if a serve in tennis is making an ace within a game. This is unique for our network we believe, so it gives our operators a great differentiation from the rest of the market in a very popular sport in tennis. And we feature – we update odds after every single point up until of course if an ace is being served within the game. And with that, we would like to show you a promo of this.

[Video Presentation] (00:12:14-00:13:12)

Thank you. So, yeah, I hope they enjoyed that little promo. So, now I would like to talk a little bit about some commercial updates. During the quarter, we strengthened our presence more in Ontario. We were signing an agreement with Mohegan and its Fallsview Casino. The Fallsview Casino is the largest gaming resort in Canada. We have a very nice brand so I think and hope that will strengthen our presence. We have a great local partner in Ontario.

During the quarter, we have also extended the Greenwood Gaming and Entertainment agreement and its betPARX brand. They're currently operating in three states and we hope and are quite positive about us being

able to support them in their expansion into new additional markets. Thus, every quarter we have been very active. We have a lot of new launches. I think the total number this quarter was 18 new launches. And the major ones here; we went live in Ontario on day one with four of our partners and after that we have added a fifth during the quarter. On the final day of the quarter, we relaunched in Mexico with Rush Street entering the market. Rush Street has built a very prominent position in the Colombian market and we hope that they will be able to do the same in Mexico. Online launches in the US we have done with Rush Street in West Virginia and we have the Soaring Eagle in Michigan. And on the US retail side we have done several launches, I think three in total with Kindred in Arizona and also we have Churchill Downs in Louisiana. So, yet another busy quarter and we hope there is plenty more to come. At the moment we are preparing for Kansas for the start of a new football season in September and we hope Ohio is next in turn.

We are still hopeful for sports betting regulation to get green light in Brazil very soon, so that would be an absolute major market for us of course and a lot of attention for us will be on California in November when two sports betting bills will go to the ballots. In June, it was great to see us winning another three awards at the EGR Awards. We won Best Sportsbook Platform of the Year for the third consecutive year, so I think we, yes, cementing our position as the premium supplier of sports betting in the industry. We are also especially proud of winning the Sports Betting Software Innovation of the Year with our Bet Builder product. We have been speaking a lot about our Bet Builder product in the last quarterly report about the possibility to combine across games and sports which is fairly unique with Kambi. So, it's very pleasing to see recognition it deserves from our peers and also recognition for all our people internally who is continuously improving the product.

After Q2 or in July, I would say Kindred has re-entered Netherlands with its Unibet brand. So, yeah, we hope that will be very positive for us going forward in Q3 and Q4. And with that, we think we have strengthened our position significantly in Netherlands where we already have BetCity and JVH active since markets reopened – re-regulated. And we also expect additional partners that formerly was in Netherlands will re-enter the market in the coming quarters.

So to summarize the Q2 as I started with, it wasn't quite the normal quarter from a sporting calendar perspective. I think we have made some great progress on our strategic plans. We have achieved a key milestone. We were successful complete – the completion of Phase 1 of our Trading Gateway. When it's all finalized, it will deliver multiple benefits for both Kambi and for our partners. We have during the quarter expanded to support more partner launches in several different markets. And looking ahead, we expect the things to happen in Ohio and Brazil. And as I mentioned, we are really looking ahead for November and the ballots in California. These three markets would definitely increase our return. We are a very profitable business with a strong financial performance and we have a very strong balance sheet, so I believe we are very well-positioned for the future.

With that, I think it's time for question. Thank you very much.

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

Yes. Thank you, Kristian and David. We will start with the questions on the telephones. So, over to you, operator.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Oscar Rönnkvist with ABG. Please go ahead.

Oscar Rönnkvist

Analyst, ABG Sundal Collier AB

Q

Thanks. Good morning all and thanks for taking my questions. I have four if that's okay. So, starting on the recruitment piece, I notice you only hired 10 people net in the quarter, had quite a steep decrease comparing to the six previous quarters. So I was just wondering if you had any comments on the recruitment pace and what we can expect going forward?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

Yeah. Sure. I think we are recruiting quite well. I think as many other companies after COVID has had a much higher staff turnover than we are used to see. So, net, it's looking a little bit tougher at the moment. Having said all of that, I think we also see what the various – quite a few of the larger competitors when it comes to tech people here in Stockholm who are decreasing their staff. So I think it looks very positive going forward.

Oscar Rönnkvist

Analyst, ABG Sundal Collier AB

Q

All right. So can I interpret that that pace should increase a bit in Q3, Q4?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

Yeah. Definitely. I hope so.

Oscar Rönnkvist

Analyst, ABG Sundal Collier AB

Q

Okay. Thanks. I had a question next on your OpEx and OpEx guidance. But first, David, could you explain you had a positive FX impact on the OpEx, is that correct?

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

A

Correct. Yeah. As you can imagine, with the majority of our business now coming from the US, we do have a lot of cash inflows in US dollars and the dollar has strengthened significantly, both versus Q1 and equally against Q2 last year. So, yeah, that's a kind of a one off unrealized revaluation in the books on those US dollar accounts.

Oscar Rönnkvist

Analyst, ABG Sundal Collier AB

Q

All right. But on your OpEx and OpEx guidance, we have seen, both in Q1 and Q2 coming in well-below your guided midpoint yet your new OpEx guidance midpoint is raised slightly. So just looking at the midpoint of your Q3 guidance and the implied Q4 OpEx then, that would be a Q-over-Q increase of 12% and 14% respectively. So can you just share your explanation of what is driving the slow costs in H1 and why H2 increases massively?

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

A

Yeah. I think a lot of this is actually FX-related, back to your first question. So, actually when you add back the FX, the real underlying OpEx at this time is actually towards the top end of the range, probably €32 million pre-FX. And when we've set that full-year guidance, we've tried to strip out all FX because we don't just kind of speculate what's going to happen there. So, actually we've probably done adding back that FX, €62 million first-half of the year and then the midpoint of the guidance is probably €68 million for the second-half. So it's – yeah. It's pretty low a percentage growth quarter-on-quarter then it looks.

Oscar Rönnkvist

Analyst, ABG Sundal Collier AB

Q

Okay. Yeah. That makes sense. So, next one on your net cash position, it remains quite large. So can you say anything about your M&A pipeline? Like is that the main explanation behind keeping €80 million in cash?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

We are definitely looking at M&A as we always are. We can't really of course comment if we are close with anything. But we are definitely open to do a M&A. And if we can't do it at some point, I think we will look at other ways of distributing the cash.

Oscar Rönnkvist

Analyst, ABG Sundal Collier AB

Q

Okay. Understood. Kristian, just a final one. The last sentence in your CEO word explains your excitement for H2, for instance mentioning partner signings. So just given your previous communication of a strong pipeline, if it has, like how has that changed over the last few months and should we expect the signings to be Tier 1 operators solely?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

I don't want to comment about the signings before they happen, but I am still very excited about the pipeline and I definitely hope we will see some signings happening. As I have said many times before, signings are often very tied to new regulations, so it's hard to know when timings will be but I feel very good about our opportunities going forward.

Oscar Rönnkvist

Analyst, ABG Sundal Collier AB

Q

Okay. And just a follow-up, can you share if it's more in the Europe or more in Rest of World or in the US that you see the strong pipeline?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

I think in Europe, I mean it's so many fewer opportunities out there because the market is much more settled. So the opportunity is definitely more of them in the US and in other parts of the world but, yeah, we have some opportunities in Europe as well.

Oscar Rönnkvist

Analyst, ABG Sundal Collier AB

Okay. Got it. That was all for me. Thank you very much.

Q

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Thank you.

A

Operator: The next question comes from Viktor Högberg with Danske Bank. Please go ahead.

Viktor Högberg

Analyst, Danske Bank A/S (Sweden)

Yes. Good morning. Just another question on the OpEx guidance. If you would put it this way, is the underlying OpEx guidance the same for the top end? It's €133 million now, it was €135 million before. The difference being the positive €2 million effect in Q2. Is that how we should read this?

Q

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

No. I think we've narrowed the range, so we've taken it down to a €5 million range. Obviously, we are getting closer towards that full-year position. Yeah. That guidance again is complete, excluding FX. So, we've had €2.7 million in the first-half of the year so that's – the guidance is excluding that. So that €2.7 million, in our world is, will reduce that number. But again we're trying to guide without FX. So, we've narrowed the range down into the middle.

A

Viktor Högberg

Analyst, Danske Bank A/S (Sweden)

Without the FX we have seen in H1 already. Is that how we should read it as well or is it [ph] the only (00:26:54) your – that you won't speculate an FX movement in the second-half?

Q

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

That's without the FX we've seen in H1. So, yeah, the €128 million to €133 million will be completely excluding that €2.7 million that we've seen in the first-half. So that would actually reduce that €128 million to €133 million on the books.

A

Viktor Högberg

Analyst, Danske Bank A/S (Sweden)

Okay. Yeah. I sort of get it.

Q

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

Yeah.

A

Viktor Högberg

Analyst, Danske Bank A/S (Sweden)

Q

If you were to come in at €133 million than reported, what would that mean if FX were – we wouldn't see any FX movements in the second-half, just the ones we have seen in the first-half if we'd see a reported FX number of €133 million for the full-year, what does that mean?

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

A

Then you would see €133 million less €2.7 million in the books, so €130.3 million in that case if there's no other FX movements in the year.

Viktor Högberg

Analyst, Danske Bank A/S (Sweden)

Q

Okay. Thank you. And on the customer signings on the previous question and this is for Kristian maybe. On the CMD last year, you talked a bit about the potential to sign a mid-sized or decently sized European operator that might have come to [indiscernible] (00:28:05) when it comes to their technical development today who might be looking at outsourcing. You talked a bit about that. We haven't seen it. Is that opportunity still there? Has that potential signing decided to do something else or is that opportunity still there?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

It's still multiple and it's not the only one. But there is the same ones I was talking about then is still there.

Viktor Högberg

Analyst, Danske Bank A/S (Sweden)

Q

Yeah. And have you – would you say that the potential or the prospect to sign them is better or worse or the same as last year?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

I will not comment on that.

Viktor Högberg

Analyst, Danske Bank A/S (Sweden)

Q

Okay. Did you say – maybe for David. Did you say anything about Abios, how much that contributed in revenues in Q2?

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

A

I didn't. But, yeah, they contributed around €0.5 million this quarter; a small net profit for them. But I think that looking forward into H2 when they launch the other product, which could be hopefully in Q4 now that's fully when that profitability is forecast to increase for them.

Viktor Högberg

Analyst, Danske Bank A/S (Sweden)

Q

Okay. But in Q3 maybe the revenues at the same level?

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

A

Yeah. You can expect that. I mean it shouldn't be lower at least.

Viktor Högberg

Analyst, Danske Bank A/S (Sweden)

Q

Okay. And on the modularization strategy, you previously said that it's reasonable to expect the first potential signing on this one in the first-half or early parts of 2023. Is that still the same timeline you would say or any revisions to that potential timeline for adding customers on this one?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

I mean, as usual, it's hard to know when we do signings, but we still believe that there is an opportunity for us to market and sell it in Q1 next year.

Viktor Högberg

Analyst, Danske Bank A/S (Sweden)

Q

Okay. Speaking of the sports schedule, it was really slow now in the reports of the second quarter. It's still slow now. And during the summer, it's going to ramp up and then we have the Kindred [indiscernible] (00:30:30) and Netherlands as well. What do you expect in terms of sequential movements in revenues, potential to see revenues having [ph] crossed (00:30:38) now in Q2?

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

A

I don't think we – we can't give a and we won't give a sales forecast, but I mean we can say that the football season is starting a little bit earlier than normal. So – and with Kindred as well, as you mentioned, Netherlands at Q3. But, yeah, we're looking forward to a busier sporting schedule and hopefully that comes through into the revenues in Q3. But, yeah, I can't give you a number.

Viktor Högberg

Analyst, Danske Bank A/S (Sweden)

Q

Okay. Yeah. And last question for me. On the regulatory movement side, would you say on a net basis that it has improved or is it at the same level as when you did the Q1 call?

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

A

I'm – I don't think it has become, long-term, bad or worse but I am a little bit disappointed about especially with the pace in Brazil, which I definitely thought would happen during the year when we talked last time and I'm starting to doubt that it will happen in 2022 now.

Viktor Högberg

Analyst, Danske Bank A/S (Sweden)

Q

Okay. Thank you very much.

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Thank you.

A

Operator: [Operator Instructions] As there are no further audio questions, I would like to turn the conference back over to the speakers for any written questions.

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

Thank you very much. I think we start with one for you, Kristian. We said – we've seen competitors seeing major growth in Latin America. What's Kambi's position in LatAm and are we seeing any possibilities in the region?

A

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

Absolutely. I mean that is a region we look at very positively. I mean we have a very strong position in Colombia. We have partners in Peru and in Argentina already. And we keep on, yeah, looking at more and more partners in Latin America. But I think the big thing that is a big focus for us now is to find the suitable partners for opening of Brazil.

A

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

Thank you. One for you, David. Are we considering buybacks or what will we do with a big cash position and low valuation of the stock? That's one question.

A

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

Yeah. That's a good question. I mean, in the last 12 months, you've seen that we've done both M&A and share buyback, so that's absolutely on the radar, on the agenda. In terms of M&A, there's some key areas that we've talked about before where we think we could really strategically drive the business. So, I think M&A is absolutely on the agenda but also buybacks. We've done it recently and that could well be that we do it again.

A

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

Okay. Thank you. One question for you, Kristian. With our new modularization strategy, we're seeing that offering operators greater control over pricing will drive broader operator appeal, particularly among those that wish to trade one or more sports in-house. Have you had any specific interest from operators regarding this?

A

Kristian Nylén

Chief Executive Officer, Kambi Group Plc

We have. And I think that has been something we have had interest for many, many years but we have not felt that that has been something we have been able to prioritize until now so there are definitely a few opportunities out there already now. But, yeah, it will certainly increase our addressable market going forward.

A

Mia Nordlander

Senior Vice President-Investor Relations, Kambi Group Plc

Okay. I think that was the last question from the Web as well. Thank you very much, Kristian and David, and thank you everyone for listening in to us. We will be back with our Q3 report, 26th of October. So I look forward to see you then again. And if you have any questions, always feel free to reach out to the IR Department.

Thank you very much and have a good day.

David Richard Kenyon

Chief Financial Officer, Kambi Group Plc

Thank you.

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