

NuScale Power Corporation NYSE:SMR

FQ1 2024 Earnings Call Transcripts

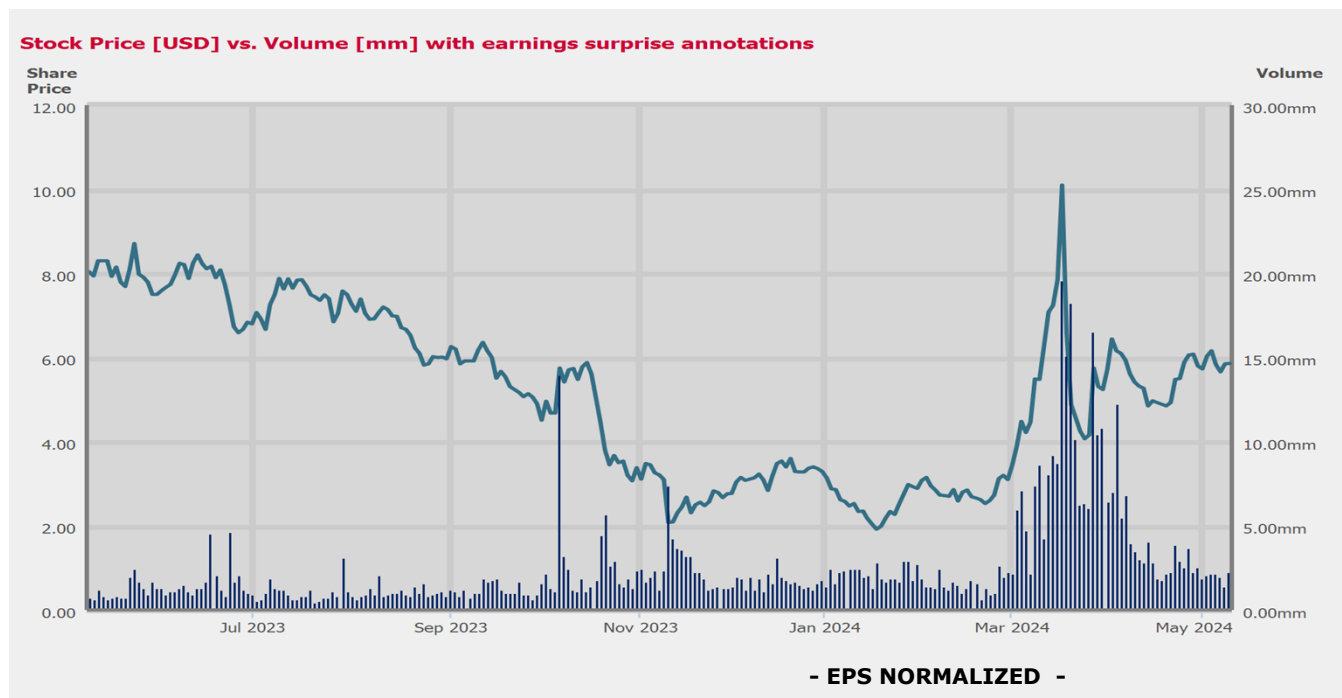
Thursday, May 09, 2024 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2024-			-FQ2 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.17)	(0.21)	NM	(0.14)	(0.57)	(0.49)
Revenue (mm)	5.70	1.38	▼ (75.79 %)	6.97	56.60	129.23

Currency: USD

Consensus as of Apr-30-2024 12:17 PM GMT



	CONSENSUS	ACTUAL	SURPRISE
FQ2 2023	(0.11)	(0.13)	NM
FQ3 2023	(0.10)	(0.26)	NM
FQ4 2023	(0.22)	(0.25)	NM
FQ1 2024	(0.17)	(0.21)	NM

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Call Participants

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John L. Hopkins

President, CEO & Director

Robert Ramsey Hamady

Chief Financial Officer

Scott Kozak

Director of Investor Relations

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Marc Gregory Bianchi

TD Cowen, Research Division

Ryan James Pfingst

*B. Riley Securities, Inc., Research
Division*

Presentation

Operator

Good afternoon, and welcome to NuScale's First Quarter 2024 Earnings Results Conference Call. Today's call is being recorded. [Operator Instructions]. A replay of today's conference call will be available and accessible on NuScale's website at ir.nuscalepower.com. The web replay will be available for 30 days following the earnings call.

At this time, for opening remarks, I would like to turn the call over to Scott Kozak, Director of Investor Relations. Please go ahead, Mr. Kozak.

Scott Kozak

Director of Investor Relations

Thank you, operator. Welcome to NuScale's First Quarter 2024 Earnings Results Conference Call. With us today are John Hopkins, President and Chief Executive Officer; and Ramsey Hamady, Chief Financial Officer. On today's call, NuScale will provide an update on its business and discuss financial results. We will then open the phone lines for questions. This afternoon, we posted a set of supplemental slides on our Investor Relations website.

As reflected in the safe harbor statement on Slide 2, the information set forth in the presentation was discussed during the course of our remarks and the subsequent Q&A session includes forward-looking statements, which reflect our current views of existing trends and are subject to a variety of risks and uncertainties. You can find a discussion of our risk factors, which could potentially contribute to such differences in our SEC filings on Form 10-K for our fiscal year 2023 and in our prior SEC filings.

I'll now turn the call over to John Hopkins, NuScale's President and Chief Executive Officer. John?

John L. Hopkins

President, CEO & Director

Thank you, Scott, and good afternoon, everyone. As you all know, NuScale was founded on the belief that nuclear power a cleaner, safer, more reliable form of energy is critical to meeting the increasing global demand for carbon-free power. Today, we are seeing this belief borne out in real time.

As you'll see on Slide 3, the need for clean, reliable power is significant and growing, driven by the electrification of the transportation building, technology and industrial segments. A recent 5-year projection for U.S. electricity demand growth has doubled from forecast provided just 1 year ago. Overall, peak demand in the U.S. is expected to grow at least 38 gigawatts over the next 5 years.

When you consider that the country is on track to close half of its coal-fired generation capacity by 2026, the vulnerability of domestic grids to intermittency comes into greater focus, particularly when you consider that in 2023, coal represented more than 16% of U.S. utility scale electricity generation. The U.S. has made historic investments in climate progress and federal regulations in state policies have helped been the projected greenhouse gas emissions curve further down.

However, the country continues to lag behind Paris agreement targets to cut emissions by 50% to 52% below 2005 levels by 2030 and achieve net 0 emissions by 2050. For example, in 2023, the U.S. added 32 gigawatts of 0 emissions electricity generation and storage. But as you see in the chart, it still falls far short of the target addition of 46 to 79 gigawatts needed to key pace for the country's Paris Agreement goal. Let me add an additional perspective.

In March, I attended CERAWEEK, the flagship Annual Conference on the energy industry calendar in a dominant theme was artificial intelligence and AI's insatiable appetite for electricity. Data center and AI-driven companies attendant and mass, speaking on panels and seeking out meetings with utility executives, power developers and power production technology companies, including NuScale. A few key takeaways from these discussions.

First, NuScale's SMR technology resonates so strongly with this group because our solution is scalable, reliable, near-term deployable and aligns with their clean energy commitments. In addition, our flexible business model means they will not need to own or operate a nuclear energy plant. Second, data center and AI companies are not like traditional nuclear energy customers, just sense of urgency and the pace at which they move are clear differentiators. We are in advanced discussions with a number of these prospective customers and several are considering commercial operation dates before the end of this decade. Third and finally, while these companies are competitors commercially, many are collaborating on energy solutions because they recognize the scope and immediate nature of their common need.

As reflected on Slide 4, when you consider how the electricity needs of tech companies have evolved, the sense urgency their activity is justified. Most traditional data centers built 10 years ago were energy consumers of 10 megawatts or less. Today, it's not uncommon to see 100-megawatt data centers. There are data centers planned in the next 3 to 5 years that will approach 1,000 megawatts. The International Energy Agency estimates that electricity demand from data centers globally could top 1,000 terawatt hours by 2026, more than double 2022 levels.

Data centers, AI and cloud storage are 24/7 power consumers. They require an uninterrupted, reliable power supply. At CeraWeek, an Amazon Web Services executive commented that the world has a new data center every 3 days. This need was underscored by a new initiative between Google, Microsoft and Nucor, working together across electricity ecosystem to develop new business models and aggregate their demand for advanced clean electricity technologies, including advanced nuclear. Initiatives like this will help bring first-of-its-kind commercial projects to the market.

As you see on Slide 5, nearly every leading hyperscaler has made major commitments to reduce carbon emissions. NuScale's technology has the ability to provide baseload decarbonized energy at scale and can help meet those sustainability objectives. We, in turn, see our sales funnel for prospective data center and AI customers expanding with significant inbound inquiries from Tier 1 hyperscale computing providers. The most common sentiment we hear in meetings with hyperscalers as well as data center operators like Standard Power, I need the power now and how do I get it? I want to emphasize, this is not a passing need. We already see another big energy consumer, quantum computing on the horizon.

Strain on the grid for AI-driven power demand is made even more acute due to strong growth in domestic manufacturing as seen on Slide 6. This is driven by domestic content requirements and onshoring trends as well as from the motion of private investment to the bipartisan investment law, the CHIPS and Science Act and the inflation Reduction Act, investment commitments for American manufacturing since 2021 have exceeded \$525 billion.

As a result, and noted on Slide 7, we continue to progress serious conversations with prospective industrial customers, including in the petrochemical industry, about identifying, incorporating clean energy options, in particular, producing clean, high-temperature, high-pressure steam for process heat applications. Related to this interest and activity, we are honored that we added Dr. Dirk Smith to our Technical Advisory Board in April. Dr. Smith recently retired from Shell Corporation, where he served as their Chief Scientist and Chairman of the Shell Science Council.

I will add that NuScale is continuing to innovate in novel ways. For example, we believe we have made great progress converting brine to an effective hydrogen carrier using clean energy from a NuScale plant. In the near future, you'll see more news on the test reformed at Pacific Northwest National Laboratory that confirm our patent-pending approach.

All our prospective customers value the numerous decisive advantages of NuScale technology relative to large-scale nuclear and other energy sources as well as compared to the largely unproven claims of newly emerging SMR technology developers. NuScale enables process heat for industrial customers, providing a clean, safe, reliable baseload source of energy with a small land footprint. Our small emergency planning zone allows us to co-locate with production facilities. This positions us very favorably when speaking with prospective customers.

As featured on Slide 8, the strategic partnership we formed with ENTRA1 Energy, an American independent energy producer and plant development owner with significant energy and infrastructure experience enables NuScale to bridge the power plant development plus ownership value.

As seen on Slides 9 and 10, with Doosan making significant steps towards production, our readiness is far more advanced than our SMR technology peers that have aspirations for U.S. nuclear regulatory committee approval. -- and the gap continues to widen between NuScale and our SMR competitors as we continue manufacturing our NuScale power module. It also highlights the degree to which we have derisked our modules.

In April, Doosan Enerbility opened a dedicated steam generator tube bending shop. It includes the installation of new state-of-the-art tube bending machines. Recent renovations also enabled the facility to form tube bending for NuScale power modules, a key milestone in future development. I toured the Doosan Facility last month in Changwon, and I am so impressed with all that Doosan done to support 4G and manufacturing NuScale's power modules.

We also are continuing to start new forgings and expect to have all of the forgings needed to support the first 6 upper reactor press initials by the end of this year. I saw that the first 7 large forgings for our reactor vessels, which we refer to as long lead materials, have made it to the forging and initial manufacturing phase. Our reactive pressure vessels are now ready to enter the next fabrication phase. Our other strategic suppliers like IHI Japan and PaR Systems in the U.S., we're also making preparations to accept customer-backed orders.

This includes fabrication of prototypical NuScale plant components. We look forward to sharing more updates from our suppliers that demonstrate our readiness to deploy NuScale powered plants. On the regulatory side, NuScale standard design approval application for a 77-megawatt upgrade design was accepted for review by the U.S. Nuclear Regulatory Commission, or NRC, in July 2023. We expect the NRC's process to conclude on or before July of 2025.

While the design is based on the same fundamental safety case and features approved by the NRC in 2020, we believe that the 77-megawatt NuScale power module supports an even wider range of customers. NuScale has deployed six E2 centers thus far with four of these centers deployed at U.S. universities and two internationally. These energy exploration centers are the NRC approved control rooms for NuScale powered plants.

As seen on Slide 11, we toured the E2 Center at Sole National University with NEA Director General, Bill Magwood. This E2 center models operations for 12 module NuScale powered plants. Among the firsts NuScale has achieved, the U.S. NRC has approved 3 operators in a 12-unit control room. For the first time since the event at the three Mile Island, the NRC also approved control room operations without a trained shift technical adviser. The U.S. State Department announced that E2 Center will be deployed in Ghana, and we are in discussions to deploy several more. Akin to Apple computer are deployed in schools, this makes training on a NuScale E2 Center the standard for advanced nuclear worldwide.

Next, I'll update you on the RoPower project. In late March, U.S. Ambassador Romania, Kathleen Kavalec, RoPower's Doicesti site. Ambassador Kavalec reiterated America's commitment to deploying a NuScale SMR in Romania and underscored that the RoPower project was an important element of the U.S. Romania strategic partnership. Planning continues to RoPower projects Phase 2 front-end engineering design work, while commercial and government stakeholders work to finalize terms.

While NuScale contracted directly with RoPower to complete FEED Phase 1, as planned, NuScale will serve as a subcontractor to Fluor for RoPower's FEED Phase 2. In late April, the President of Romania and a Romanian delegation toured Doosan Enerbility's manufacturing facility and saw the NuScale power module components being manufactured there. Before I conclude, I want to reiterate that Nuclear Energy is such a valuable commodity in the context of the global energy transition because of its sustainable solution to execute reliably.

A paring that does not exist with other current energy solutions. Whether it's industrial electrification process heat for the rapidly escalating demand of the data economy, NuScale's SMR technology is part of

the solution. Given our ability to produce clean, reliable energy, reach customers and help them achieve their sustainability goals. We maintain competitive advantages of technology, safety, manufacturing readiness, siting and regulatory success and expect to play an integral role in helping a wide range of customers meet your 24/7 energy needs while reinforcing and expanding the power grid.

Now I'll turn it over to Ramsey to provide our financial update. Ramsey?

Robert Ramsey Hamady
Chief Financial Officer

Thank you, John, and hello, everyone. Our financial results will be available in our filings. So, my focus will be on explaining major line items. I will discuss our first quarter results found on Slide 12 and relevant factors impacting our financial position. All figures following are for Q1 2024, unless I state otherwise. I'll begin with NuScale's improved financial position.

In January, the company implemented a series of strategic initiatives to better align our resources with NuScale's primary objective of transitioning towards commercialization and revenue-producing commercial contracts. These actions further NuScale's long-term financial stability by generating approximately \$50 million to \$60 million in annualized savings starting in the second quarter of this year. NuScale's overall cash position improved during the period and ended the first quarter with cash and equivalents of \$137.1 million, \$5.1 million of which is restricted and no debt.

This compares to the end of the fourth quarter of 2023 when the company had cash and equivalents of \$125.4 million, \$5.1 million of which was restricted and no debt. NuScale also reported revenue of \$1.4 million and net loss of \$48.1 million for the 3-month period ending March 31. This compares to revenue of \$5.5 million and a net loss of \$35.6 million for the same period in 2023. Higher net loss reported in the current quarter was driven by a one-time \$3.2 million charge associated with cost reduction efforts related to our transition from an R&D-based company to commercial operations and also a \$9 million noncash adjustment to the fair value of our warrants driven by the increase in our share price.

Looking forward, NuScale will maintain our financial discipline and prudently sustain a conservative liquidity reserve. I conclude my remarks with a brief view of our capitalization summary on Slide 13. Additional information may be found on our SEC Form 10-Q and earnings release may available prior to this call. With that, I'd like to thank you again for joining today and for your continued support of NuScale. We'll now take questions. Operator?

Question and Answer

Operator

Thank you. The floor is now open for questions. [Operator Instructions]. Your first question comes from the line of George Gianarikas with Canaccord Genuity.

George Gianarikas

Canaccord Genuity Corp., Research Division

So, you articulated a lot of momentum in your discussions with some of the hyperscale data center companies. And I'm curious as to when you see that momentum translating materializing into orders? I mean, it seems like it's close, but any guidance there would be much appreciated.

John L. Hopkins

President, CEO & Director

Yes, George, John Hopkins here. Just -- it wasn't that long ago when I commented that we saw a lot of activity with utilities related to coal plant refurbishment. And then last year, we saw a lot of activity in discussions around hydrogen production, process heat, ammonia. However, when I see this time in conversations with these Tier 1 and others as it relates to AI and data centers, it's not rhetoric.

They have a demand, and they have an immediate demand. And it just continues to perpetuate. And it's not that the coal plant have gone away or the hydrogen production, this is compounded by the additional requirements of these data centers and AI. And we have NDAs in place. And we put these NDAs in place very quickly because everybody is kicking tires now and wants to see who can deliver first. And as I mentioned, we have -- I was just in Doosan and I was stunned to see the advancement of seeing 7 of our forgings coming online.

They're even doing tube bending and are doing our helical coil steam generator -- they're actually scaled up in testing currently. And these things are invaluable to us because if somebody wants to move quickly, I could probably save over a year of the schedule because we already have these long lead items in process. So, I think the difference to your question is that there's a lot of pressure now coming on when I see utilities from data centers and from AI companies in we need to meet the demand now. And if you can't deal with it, we'll have to go somewhere else.

And so, I'm seeing the utilities now -- we had the inflation Reduction Act, and we had the others that I talked about, but I've never seen any movement as fast as what I'm seeing currently right now. So, we're pretty bullish on the market. This is exactly what I feel and I can -- we needed a burning platform. I think this is going to be what promulgates this industry to really take off.

George Gianarikas

Canaccord Genuity Corp., Research Division

And maybe just as a follow-up as a follow-up. Are there any implications to you of the restrictions on Russian uranium imports?

John L. Hopkins

President, CEO & Director

No, there is none at all. Our Chief Technology Officer, Dr. Jose Reyes, back in the year 2000, made a conscious decision to stay as an advanced light water reactor predominantly because that's what the nuclear regulators all over the world do. They know light water. And so, we're typically what we call conventional fuel, less than 5% enriched. And our fuel is actually manufactured by Framatome here in the United States. So, fuel is not an issue for us.

Operator

[Operator Instructions]. Your next question comes from the line of Marc Bianchi with TD Cowen.

Marc Gregory Bianchi

TD Cowen, Research Division

John, I wanted to follow up on that last discussion about the data center demand. You mentioned there were several that wanted to have commercial operation before the end of the decade. How many do you think could be awarded to the industry? So, I'm curious of how meaningful this would be, and I know you probably don't want to get into saying how many you could get. But just what are the real prospects that are out there? Is it like 2 or 3? Is it 10? Help us understand how much that could be?

John L. Hopkins

President, CEO & Director

I think what comes down to, Marc, and thank you for the question. It's the capacity to execute. One thing we don't want to do is overextend our capacity to execute. So, what I'm looking for right now in our model is pretty simple. We will take first-of-a-kind risk, provide us long-term our PPAs, and that's what we're asking for. So right now, we've got 6 modules coming offline.

Doosan says they could fabricate 20 modules in an annual time frame, and they're actually gearing up, as I said before. So -- and what I like the fact on these, what I call, fungible assets, I can move these modules. We're building in a factory. So, as you remember, our model is predicated not to do one-off projects, but we have 1 or 2, and we can locate or relocate these from the factory.

As we're building in a factory, you're doing the commercial work in the field simultaneously. So, we can move pretty quickly. So, for me, right now, I'm not greedy. Just give me one plant, one plant to start. And I'm telling you, I've never -- you probably hear it -- this is the first time I've really seen activity moving. People ask me about where is standard power? They're still there that these are large and complicated financial transactions that just take time to finalize.

But Standard Power has not gone away. And again, the others like the Amazon and Google, you read the announcement with Nucor and Google and Microsoft teaming together, I was recently at a conference. And I heard one of the senior executives say, in the market, we're competition. Commercially, we're competitors. However, when it comes to energy, we're collaborated because we all have a standard need, and they're looking to move more times of the essence.

Marc Gregory Bianchi

TD Cowen, Research Division

Right, right. Okay. I guess just two others for me. One, in the quarterly filings for the last few quarters, there's been a sales and marketing agreement. I think it started out as about \$20 million a few quarters ago, and it's been amortized lower as time goes on. Is that the agreement with ENTRA-1? And if not, is there some expectation for some sort of an award to occur because of this agreement? And if an award doesn't occur, to get the money back or something like that? Maybe you could just talk about what's going on there.

John L. Hopkins

President, CEO & Director

Yes. I don't know if at Liberty really stay with that money when other than it is for development purposes. And again, this is a -- as I said, these are complicated transactions. And -- but I will say, our partner, ENTRA-1, they're in discussions with the top 5 tier banks. I mean, I'm in discussions with them as well. And what they're looking for is bankable projects, as I commented before, they don't necessarily want to just go and finance a nuclear power plant. These banks are looking for assets under management.

So, they're looking at what ENTRA-1 brings is the overarching infrastructure, not just nuclear, but it could be LNG, hydrogen, ammonia, et cetera. So, we're assisting in some development costs and making this market happen. And I'm glad we did it because I'm starting to finally see hopefully, this is going to come to fruition.

Marc Gregory Bianchi

TD Cowen, Research Division

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Okay. Good. And then the last. Sorry, go ahead, John.

John L. Hopkins
President, CEO & Director

Go ahead. No, I'm sorry, I interrupted. Sorry.

Marc Gregory Bianchi
TD Cowen, Research Division

I was just going to ask one for Ramsey on cash. So, the Q has a \$33 million cash use and you talked about in the slides here of the \$50 million to \$60 million of annualized savings that will happen in the second quarter. So that's like \$13 million a quarter of savings. Should the implication then be that like the cash use in second quarter and beyond should be in that ballpark of \$20 million bucks?

Robert Ramsey Hamady
Chief Financial Officer

So, Marc, when we announced the -- our cost savings plan in January. We did mention a savings of \$50 million to \$60 million on an annualized basis. Our cash from operations for this quarter. was, I think, about negative \$33.5 million. I anticipate that our cash burn on an ongoing basis will be sub \$10 million. We took a number of kind of onetime charges during the first quarter. So, I think if you're about in the ballpark, if you're thinking 20 or low 20s as a quarterly cash burn rate just based on where we stand today.

Marc Gregory Bianchi
TD Cowen, Research Division

Okay. And to confirm that doesn't contemplate any further ATM sales? I know you could do those, but the numbers we're talking about here, that's before any benefit from ATM.

Robert Ramsey Hamady
Chief Financial Officer

I'm talking about cash flow from operations.

Marc Gregory Bianchi
TD Cowen, Research Division

Yes. Got it, absolutely.

Operator

Your next question comes from the line of Ryan Pfingst with B. Riley.

Ryan James Pfingst
B. Riley Securities, Inc., Research Division

For our understanding that the timing for RoPower is out of your control, can you just remind us what the final steps are there to finalize terms for the Phase II FEED work?

John L. Hopkins
President, CEO & Director

Yes, Ryan. It's -- in fact, I just -- we had an update this morning with RoPower client. And as I commented, I was with the President of Romania 2 weeks ago in Korea and he toured the Doosan facility. We completed working with Fluor Corporation to FEED Phase 1. We're now entering into the LNTP or the limited notice to proceed FEED Phase 2, where NuScale is the -- a subcontractor to Fluor Corporation and their vote was to have occurred in April 17 with the shareholders of RoPower. However, whatever reason, and we don't know.

Although we were told it has nothing to do with NuScale Technology or the contractors is politically driven in a year of elections that they postponed the date the shareholders voted to June or July. And we were told as of this morning that, that's still progressing. It's not a financial issue. It's -- and all we know is that the vote has been abstained or delayed into June July time frame. So that's the extent of what they've told us. Limited to this phase is, as I said, Fluor is we're a subcontractor to Fluor. The duration of that is about a 1-year duration before they move into the final notice to proceed. Does that help?

Ryan James Pfingst

B. Riley Securities, Inc., Research Division

Got it. Yes, sure it does, John. And then just one more. Wondering if you had any update on the 2 SMR preparations programs that we spoke about a little bit on the last call.

John L. Hopkins

President, CEO & Director

Yes. It's still -- we're waiting for the request to come out. It's -- the initial -- there's for \$800 million in our discussions with government, that award will probably be -- go on to the next administration, but then there's another award for \$100 million that we're waiting on manufacturing and supply chain of nominally about \$100 million in what we were told the turnaround from that -- on that time on that contract is 90 days. So, we're still waiting. And hopefully, it will come to the -- at least that \$100 million, we'll know here pretty soon. what we're told. It is an election year, mind you.

Ryan James Pfingst

B. Riley Securities, Inc., Research Division

Yes. Understood. I appreciate that color.

Operator

We have reached the allotted time for questions. I will now turn the call over to NuScale's CEO, John Hopkins, for closing remarks.

John L. Hopkins

President, CEO & Director

Yes. Thank you, operator. As we stated before, NuScale is the only SMR design certified by the U.S. Nuclear Regulatory Commission. We, along with our strategic partner, ENTRA-1, have built, we believe, a very robust business development pipeline. NuScale has industry-leading manufacturing readiness and is well positioned to commercialize and deliver clean energy at scale. Nuclear Technology is essential to powering the global energy transition, and we believe we are at the forefront of that effort with our work to deliver safe, scalable and reliable carbon-free nuclear power. I believe we're off to a good start in 2024 with progress on all fronts. And forward and I look forward to what we will accomplish together throughout the remainder of the year.

I'd like to thank everybody for their interest in NuScale and for participating on the call today. Operator?

Operator

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

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