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# STAAR Surgical Co. (STAA)

Q3 2024 Earnings Call

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**Patrick F. Williams**

*Chief Financial Officer, STAAR Surgical Co.*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Greetings and welcome to the STAAR Surgical Third Quarter 2024 Earnings Webcast. As a reminder, this event is being recorded today, Wednesday, October 30, 2024. During today's presentation, all parties will be in a listen-only mode. Following the presentation, the call will be open for questions. [Operator Instructions]

I would now like to introduce your host, Brian Moore, Vice President of Investor Relations with STAAR Surgical. Please go ahead.

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**Brian Moore**

*Vice President-Investor & Corporate Development, STAAR Surgical Co.*

Thank you, operator. Good afternoon, everyone, and thank you for joining us to discuss the company's financial results for the third quarter ended September 27, 2024. Today's speakers are Tom Frinzi, Chair of the Board, President and CEO and Patrick Williams, Chief Financial Officer. The press release of our third quarter results was issued just after 4:00 PM Eastern Time. We have posted copies of today's earnings release and earnings presentation to the Investor Relations section of STAAR's website at [investors.staar.com](https://investors.staar.com).

Before we begin, let me quickly remind you that the company comments during this call will include forward-looking statements. We caution you that any statement that is not a statement of historical fact is a forward-looking statement. This includes remarks about the company's projections, expectations, plans, beliefs and prospects. These statements are based on judgment and analysis as of the date of this conference call and are subject to numerous important risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. The risks and uncertainties associated with these forward-looking statements are described in the Safe Harbor statement in today's press release, as well as STAAR's public periodic filings with the SEC. Except as required by law, STAAR assumes no obligation to update these forward-looking statements to reflect future events or actual outcomes and does not intend to do so.

In addition, on this call and in the press release, we discussed certain non-GAAP financial measures, including adjusted EBITDA and adjusted EBITDA per share. We also provide sales data and constant currency. Definitions and reconciliations to GAAP are included in today's press release.

For brevity, unless otherwise specified, all comparisons on today's call will be on a year-over-year basis versus the relevant period. Following our prepared remarks, we will open the webcast to questions from publishing analysts. Publishing analysts, please ask your initial two questions when your line is unmuted, then re-queue with any follow-ups.

Finally, we intend to use our website as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. Such disclosure will be included on our website in the Investor Relations section. Accordingly, investors should monitor our investor website in addition to following our press releases, SEC filings and public conference calls and webcasts.

And with that, I would now like to turn the presentation over to Tom Frinzi. Tom?

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### Thomas G. Frinzi

*Chair of the Board, President & Chief Executive Officer, STAAR Surgical Co.*

Thank you, Brian, and good afternoon, everyone. In the third quarter, we achieved net sales of \$88.6 million and double-digit sales growth against a macroeconomic environment that softened in the second half of the quarter, particularly in China. Our results reflect the increased global adoption and market share gains of EVO ICL lenses, the positive returns on our investments in commercial programs, our customer focused initiatives, and the global diversity of our business.

For fiscal year 2024, we are maintaining our financial outlook and continue to anticipate net sales of approximately \$340 million to \$345 million.

During the third quarter, we celebrated the grand opening of our new EVO ICL Experience Center at our Lake Forest, Southern California headquarters. Importantly, this new center includes cutting-edge technology and workstations for approximately 60 individuals, nearly 10 times the capacity of our previous center. Designed as a state-of-the-art learning environment for surgeons, healthcare staff and STAAR employees, our goal is for the center to help facilitate practice efficiencies, enhance patient care and increase ICL adoption. We will be offering a number of training and education programs, including lens size selection and pre-operative case management, patient acquisition and practice development with capabilities to livestream surgeries from key sites.

In October alone, our teams hosted a getting started program as a comprehensive ICL boot camp for newly trained surgeons in the US and Canada, a group of surgeons from Japan and a summit for approximately two dozen optometrists employed within our US Highway 93 customers. By year-end, we will launch at least 10 programs at this new center of excellence.

Earlier in the quarter, we attended the 42nd Annual Congress of the European Society of Cataract, Refractive Surgeons, ESCRS, in Barcelona, Spain, a key meeting attended by leading surgeons from around the world. We were encouraged by the more than 80 papers and presentations that were presented relating to ICL technology, and even more pleased to find that a number of surgeons shared that they view EVO ICL as the choice for minus 6 diopters and above. This increased confidence is a direct reflection of the investments we have made throughout 2024 to advance the education, training and ICL understanding of our surgeon customers. We are confident that this positive feedback from surgeons will help position ICL as the preferred choice among patients, especially as we advance our lower diopter strategies to expand our total addressable market.

Now turning to our performance by region. In the Americas, we generated sales growth of 14% in the third quarter. The US refractive market was much more challenging than we anticipated in the quarter, down 18% year-over-year. STAAR significantly outpaced the market, growing US sales 16% year-over-year. In the third quarter, we signed three additional Fast Lane agreements as part of our US Highway 93 commercial strategy. We now have 12 Fast Lane customers, and these Fast Lane customers commit on average 23% of their refractive procedure mix in the first year of the agreement. For the third quarter of 2024, the 8 Fast Lane customers with at least one full quarter of sales under their belt delivered 61% ICL sales growth.

In EMEA, we generated 12% sales growth in the quarter, driven primarily by the Middle East and European distributor markets. We are energized by the outperformance of our EMEA region this year, in particular relative to our initial outlook and believe we will continue to benefit from our investments in this important market.

In APAC, the largest market in the world for refractive procedures, in our largest region for sales, we generated sales growth of 9% in the third quarter. China sales were up 7% and ICL unit growth was positive. However, the high season started strong, but the macroeconomic climate in China declined following our Q2 earnings report in August. We continued to outpace the market and deliver sales and unit growth in this key market, but the momentum that we saw early in the quarter certainly tapered as we moved through Q3.

Turning to Japan. We continued to gain share with sales growth of 15%. Our Japan business has generated double-digit unit growth in 32 of the last 35 quarters, which we believe is a testament not only to the talent of our team, but the support we continue to receive from key opinion leaders in the region.

In South Korea, we generated 11% sales growth in the third quarter, boosted by the strength of South Korea's first ICL only clinic, which is on track to implant over 2,000 lenses this year.

I would now like to turn the call over to Patrick to review our financial results. After Patrick discusses the financials, I will update you on our additional growth initiatives and outlook. Patrick?

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### Patrick F. Williams

*Chief Financial Officer, STAAR Surgical Co.*

Thank you, Tom, and good afternoon, everyone. Total net sales for Q3 2024 increased 10% to \$88.6 million, up from \$80.3 million in the prior year quarter. This \$8.3 million increase is largely attributable to the \$8 million or 10% increase in ICL sales and \$0.2 million decrease in other products.

Constant currency net sales for Q3 2024 were \$88.9 million, also up 10% as compared to prior year period. For Q3 2024, gross profit was \$68.5 million or 77.3% of net sales as compared to \$63.6 million or 79.2% of net sales in the year ago period. The year-over-year decrease in gross margin was primarily due to reduced unit production that resulted in less absorption of fixed overhead. For the full year, we now expect gross profit margin to be approximately 79%, down 1 point from our previous estimate.

Moving down the income statement, total operating expenses for Q3 2024 increased 10% to \$62.8 million, up from \$57.3 million in Q3 2023 and down from \$66.5 million in Q2 2024. The sequential decrease in operating expenses reflects a shift in the timing of some spend that we now expect to occur in Q4 2024.

Taking a closer look at the components of operating expenses, G&A expense for Q3 2024 was \$21.7 million, up from \$19.3 million in the prior year quarter and down from \$23.6 million in Q2 2024. This year-over-year increase

is primarily due to increased facilities costs and compensation-related expenses. For Q4 2024, we continue to expect G&A expense to be approximately \$24 million.

Selling and marketing expense was \$26.6 million for both Q3 2024 and the prior year quarter, down from \$28.8 million in Q2 2024. The lower than planned selling and marketing in the quarter was due to timing of marketing, promotion and advertising activities, most of which we expect to carry over to Q4. We also incurred a \$1.6 million non-cash write-off related to our former EVO Experience Center. For Q4 2024, we now expect selling and marketing expense to be approximately \$32 million.

Research and development expense was \$14.5 million for Q3 2024, up from \$11.5 million in the prior year quarter and up from \$14.1 million in Q2 2024. This year-over-year increase in R&D is primarily due to purchases of in-process R&D related to external AI tools for measurement and lens site selection, as well as compensation-related expenses, which were partially offset by lower clinical trial costs. For Q4 2024, we continue to expect R&D expense to be approximately \$15 million.

For Q3 2024, GAAP net income was \$10 million or \$0.20 earnings per diluted share, up from \$4.8 million or \$0.10 earnings per diluted share in the prior year quarter. The increase in net income was primarily attributable to higher sales and a gain on foreign currency transactions, partially offset by higher operating expenses. Adjusted EBITDA for Q3 2024 was \$16.2 million or \$0.33 per diluted share as compared to \$16.5 million or \$0.33 per diluted share in the prior year quarter.

Turning now to our balance sheet. At the end of the third quarter, our cash, cash equivalents and investments available for sale were \$236 million, up from \$232.4 million in December 2023, giving STAAR significant flexibility to make a range of capital allocation decisions. We also have significant future cash receipts, as shown in our accounts receivable balance. In fact, as of this week, our accounts receivable balance is already down to approximately \$85 million, and moving forward, we expect our DSO to moderate around 90 days. For fiscal 2024, we continue to expect CapEx of approximately \$30 million for the full year, which includes approximately \$10 million of ERP-related projects, which is currently recorded as other assets on our cash flow statement.

As Tom said, we are maintaining both our fiscal 2024 sales outlook and adjusted EBITDA outlook. A reconciliation of non-GAAP financial measures is shown in today's earnings press release and earnings presentation. For modeling purposes, please refer to slide 16 of this earnings presentation for additional details and specific line item updates. We look forward to meeting many of you in the days and weeks ahead. A list of upcoming investor meetings and activities can be found on our investor website under Upcoming Events.

And now, back to Tom.

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## Thomas G. Frinzi

*Chair of the Board, President & Chief Executive Officer, STAAR Surgical Co.*

Thank you, Patrick. As I noted at the top of the call, I am incredibly proud of the progress we made in the third quarter to advance our market building initiatives, drive EVO ICL uptake and reinforce the significant opportunity in front of us. Every day, we actively respond to the market, our customers and the growing need for myopia solutions.

As I mentioned earlier, we are maintaining our fiscal 2024 outlook. You will note the composition of our sales outlook has changed, which reflects both the dynamic macroeconomic environment and the growing global diversity of our business. As set forth in today's press release in the earnings presentation slides, some regions are growing more than anticipated, while growth expectations for other regions have softened.

The macroeconomic landscape in China is particularly dynamic right now, which we believe is transitory. We are encouraged by the recent shift in China's fiscal policy and announced stimulus, and we will continue to closely monitor the potential impact on consumer sentiment and our sales. For example, we saw a positive uplift in ICL end-market sales, our proxy for implant procedures during Golden Week in early October, following the stimulus announcement on September 24.

STAAR is well positioned to weather the current market dynamics. We remain profitable, backed by a strong balance sheet. While we are not providing 2025 outlook today, we remain confident in STAAR's long-term growth and the tremendous opportunity for EVO. STAAR's Collamer material continues to be unique and well positioned with very high levels of surgeon and patient satisfaction. Additionally, our total addressable market is only increasing as myopia is a growing healthcare issue and is certainly not going away. We continue to build surgeon confidence in measurement and lens-size selection. And as that surgeon confidence builds, their commitment to EVO as well as their commitment to coming down the diopter curve increases, which is consistent with our stated goal of being the choice for minus 6 diopters and above.

And finally, we are in the process of rebuilding our pipeline to deliver next-generation technology that will continue to provide the quality as well as quantity of vision our demographic demands. STAAR is laying the foundation for growth to create not only a good company today, but a great company for tomorrow.

And with that, operator, we'll now take questions.

## QUESTION AND ANSWER SECTION

**Operator:** We will now begin the question-and-answer session. [Operator Instructions] The first question today comes from Tom Stephan with Stifel. Please go ahead.

**Thomas M. Stephan**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Great. Hey, guys. Thanks for the questions. Maybe I'll start with 2025. When I look at Street numbers, they're modeling, I think, low-teens growth next year. So, obviously a lot of very fluid macro dynamics. But when I look at the midpoint of this year's guide, it implies maybe low-single digit growth in the fourth quarter. So, Tom, I know you said you're not going to be providing guidance, but can you just help us think about what 2025 growth should look like, either relative to that 4Q exit and/or maybe the mid-to-high single digit growth that you're tracking toward for the full year in 2024? And then I have a follow-up.

**Thomas G. Frinzi**

*Chair of the Board, President & Chief Executive Officer, STAAR Surgical Co.*

A

Sure. Thanks, Tom, and appreciate the question. Look, I think it'd be premature, as we said in the prepared comments, to comment on 2025 outlook at this time. But as you know, we have a history of outpacing the market and continue to feel confident in our ability to do so. We have been and will continue to be a growth-oriented company with a strong track record and are exceptionally pleased with our performance to-date.

**Thomas M. Stephan**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Got it. That's fair. And then maybe to zero in on China, I think the updated guidance implies – hopefully my math here is right, but roughly down 10% to 15% growth in the fourth quarter. Can you just elaborate on the trends you're seeing? What kind of transpired, let's call it, intra-quarter, and then, I guess maybe some of the, I guess, 4Q to-date trends? Thanks.

**Thomas G. Frinzi**

*Chair of the Board, President & Chief Executive Officer, STAAR Surgical Co.*

A

Yeah. Sure, Tom. Again, appreciate the question. And consistent with what you heard in our prepared remarks, the second half of the high season certainly changed. Sales tapered off following the Q2 earnings call in early August. And I think August and September were challenging, but we continued even in that environment to gain market share and outpace the market. Again, we believe these headwinds are transitory and we're encouraged by the stimulus and economic packages that the China government is speaking about, and we're monitoring it closely.

**Thomas M. Stephan**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Got it. Thanks, Tom.

**Operator:** The next question comes from Ryan Zimmerman with BTIG. Please go ahead.

**Ryan Zimmerman**

*Analyst, BTIG LLC*

Q

Good afternoon. Thanks for taking our questions and appreciate all the disclosures. It's very helpful. I want to ask on the US first, actually. If I look at numbers for your US business relative to laser vision correction, it was really steady to 2Q at about 4% penetration by our estimate. It's grown the last six quarters prior. So, Tom, I'm just wondering if there's anything to call out here. Would you expect that to keep growing, given that you did take down the US guidance and just how to think about that trajectory, particularly in the US?

**Thomas G. Frinzi**

*Chair of the Board, President & Chief Executive Officer, STAAR Surgical Co.*

A

Well, look, as we stated, Ryan, we're pleased with what is happening in the US market. When you think of laser vision correction, broadly defined being down 18% in the quarter, we grew 16%. We're very pleased with that type of performance. In particular within our Highway 93 initiative, we signed a couple of new Fast Lane accounts. And when we look at those accounts that have had a full quarter under their belt, and the fact again, as we said in our prepared remarks, we see really nice growth within those accounts, it certainly encourages us that we are taking share, we're outpacing the market, and we're well-positioned to have continued, sustainable growth in this second largest market in refractive surgery around the world.

**Ryan Zimmerman**

*Analyst, BTIG LLC*

Q

Okay. And then just to follow-up on your comments, Tom, you said you were confident in the long-term growth outlook. Are we to read that as kind of reaffirming your long-range plans that you laid out at your Capital Markets Day last year? And just I'm curious what you're assuming either from a timing standpoint or a contribution from stimulus in China, if you have any thoughts on that.



**Thomas G. Frinzi**

*Chair of the Board, President & Chief Executive Officer, STAAR Surgical Co.*

A

Look, it – Ryan, I appreciate the question of trying to get me to comment on something that I've said is probably premature for us to comment, so.

**Ryan Zimmerman**

*Analyst, BTIG LLC*

Q

Yeah.

**Thomas G. Frinzi**

*Chair of the Board, President & Chief Executive Officer, STAAR Surgical Co.*

A

Look, I – I'm encouraged by what we are hearing on the ground from our people in China. Golden Week was a nice opportunity to see some uptick in consumer spending. So stimulus is beginning to have an impact. We've indicated that we think those issues are transitory. And look, we have a history, whether you go back to 2021, 2023, that the China market can turn very quickly. And we continue to believe we're well positioned in that market, we're well received within that market. And as it turns, we are in a great position to take advantage of it and continue to grow and outpace the market.

**Ryan Zimmerman**

*Analyst, BTIG LLC*

Q

Thank you, Tom.

**Thomas G. Frinzi**

*Chair of the Board, President & Chief Executive Officer, STAAR Surgical Co.*

A

Thank you, Ryan.

**Operator:** The next question comes from Anthony Petrone with Mizuho. Please go ahead.

**Dimitri Tahal**

*Analyst, Mizuho Securities USA LLC*

Q

Hey, guys. This is Dimitri Tahal on for Anthony. He's jumping around in the conference [indiscernible] (00:23:59). But I just wanted to ask again, a little touch on China. Ask on how are the trends for distributor stocking in China looking? And if we can look at the scheduled volumes at your group? And for a follow-up, is the – what's the US outlook for when the underlying refractive market can stabilize? Do we see it maybe returning to mid-single digit growth next year?

**Thomas G. Frinzi**

*Chair of the Board, President & Chief Executive Officer, STAAR Surgical Co.*

A

Yes, I understand the nature of the question. Again, I'd refer you back to our prepared comments. We certainly indicated that the high season did slow down in China as we exited August and September. So we do have slightly more inventory in the channel because of that downturn, but we think it's an appropriate level. And as that market turns, we believe that will be a pull through at the appropriate level.

**Patrick F. Williams**

*Chief Financial Officer, STAAR Surgical Co.*

A



And then the question on US related...

**Dimitri Tahal**

*Analyst, Mizuho Securities USA LLC*

Yeah.

Q

**Patrick F. Williams**

*Chief Financial Officer, STAAR Surgical Co.*

...to our assumptions, underlying volume. Look, we've contemplated that clearly Q3 was down again. And what you see reflected in our guidance that we spoke about of reducing the full year to 20% contemplates a bit of a continued downturn in the overall laser vision correction. But as we said, we continue to take market share and grow. And EVO is doing an amazing job out there. And if anything, we're expanding the TAM with our doctors and we're getting more and more on board.

A

**Dimitri Tahal**

*Analyst, Mizuho Securities USA LLC*

Okay. Thanks a lot.

Q

**Operator:** The next question comes from Patrick Wood with Morgan Stanley. Please go ahead.

**Patrick Wood**

*Analyst, Morgan Stanley & Co. International Plc*

Perfect. Thank you. Just one quick one. I guess, for China, where the volumes have been a bit slower, what do you think has happened to these patients? And the reason I ask is, is there an effect where they've delayed having a procedure, they are waiting? And then if let's just say the stimulus comes back, you get an effective – I don't want to say a bolus of volumes, but is that a way to think about it? Did that happen in the US historically? I know LASIK was a little bit difficult [ph] 2008 (00:26:20), but is there an effect of delayed patients that come through in a lump, or do you think that they've just gone up and treated it or just decided not to go for refractive surgery at all?

Q

**Thomas G. Frinzi**

*Chair of the Board, President & Chief Executive Officer, STAAR Surgical Co.*

Hey, Patrick. Yeah, I – again, I think it's a great question. And I think those patients are still there. And as I said earlier, look, we've seen in the past, China demand can come back very quickly. Fiscal year 2021, first quarter 2023, following stimulus type activity, the market returned pretty quickly. So I think those patients are there. And as consumer sentiment changes, again, as I said, our – we're very well respected in that market. I think we're very well positioned in that market. We have a lot of surgeon support. And as that economy turns, I think it's reasonable to assume volumes pick back up rather quickly.

A

**Patrick Wood**

*Analyst, Morgan Stanley & Co. International Plc*

Love it. Thanks for taking the question.

Q

**Operator:** The next question comes from Matthew O'Brien with Piper Sandler. Please go ahead.

Q

Hey, this is [ph] Phil (00:27:34) on for Matt. Thanks for taking our questions. Just wanted to start with EMEA, where you brought up sales guidance to 10% from 6%, which is really outstanding, given this backdrop. Any specific countries of strength to call out and any commentary on why the refractive market growth in these countries might be a little bit different than what we're seeing domestically and over in China?

**Thomas G. Frinzi**

*Chair of the Board, President & Chief Executive Officer, STAAR Surgical Co.*

A

Yeah. Look, I thank you for recognizing the strong performance by our EMEA team. As we said in our prepared remarks, certainly our distributor markets in Middle East were very strong. But we've also seen nice work in the UK, in Spain, in Germany where we're direct, and we're really encouraged. Much like we have a Highway 93 initiative in the US, we have what our team there refers to as an Autobahn 50. And certainly within those targeted customers, we have an all hands on deck type approach, and we're seeing nice growth there and very pleased with our performance in what has been a very nice market for us.

Q

That's helpful. And then one follow-up on China, and I know we talked a lot about it today, but just an update on the competitive landscape over there in both the implantable lens category that you play in as well as other laser-based procedure offerings more specifically, are you seeing any pressure due to the Smile price adjustments? Thank you.

**Thomas G. Frinzi**

*Chair of the Board, President & Chief Executive Officer, STAAR Surgical Co.*

A

Yeah. I think, again, good questions embedded in there. And as I've said in the past, I think competition is a healthy thing. It certainly validates the market. Imitation is the highest form of flattery. So, certainly, we're aware of competition coming. We welcome the opportunity because I think all boats rise. It validates the market, will help grow the market as more people are out there talking about it. But we think we're very well positioned.

Eyebright is probably a company closest to come to the market in China. We think based upon what they've said publicly, probably sometime in 2025, they'll hit the market. But again, their material, acrylic versus our polymer material, we think we have an advantage. The fact that they won't have a toric version, and we do, I think another advantage to us. But we're keeping our ears and eyes open and certainly will be prepared, particularly as we introduce our V5 technology in that market probably by mid-2025.

We think if price becomes an issue in the market, we have a real stratification opportunity, both by customer and by product to compete favorably. But in general, the latter part of your question about laser vision correction, yeah, we've seen it particularly in China that there has been some price compression on the LVC side. But again, we believe our product should maintain a premium because we produce a premium outcome. One could argue how great of a premium, and what we've seen in reality is somewhere in the \$1,500 to \$2,000 per eye premium is appropriate for the outcome we produce from a quality of vision and quantity of vision point of view. And customers are inclined to step up to that extra premium, and where that's taken place, we've seen uptick in volume.

Q

Helpful. Thanks so much.

Thomas G. Frinzi

*Chair of the Board, President & Chief Executive Officer, STAAR Surgical Co.*

A

Thank you.

**Operator:** [Operator Instructions] The next question – the conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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