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Earnings Call

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Call Participants

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Gregory Scott Parrish

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Jason Ross Tilchen

Canaccord Genuity Corp., Research Division

Jeffrey Marc Silber

BMO Capital Markets Equity Research

Matthew R. Filek

William Blair & Company L.L.C., Research Division

Presentation

Operator

Thank you for standing by. My name is Tiffany, and I will be your conference operator today. At this time, I would like to welcome everyone to the Stride First Quarter Fiscal Year 2026 Earnings Call. [Operator Instructions]

I would now like to turn the call over to Timothy Casey, Vice President, Investor Relations. Sir, please go ahead.

Timothy Casey

Vice President of Investor Relations

Thank you, and good afternoon. Welcome to Stride's First Quarter Earnings Call for Fiscal Year 2026. With me on today's call are James Rhyu, Chief Executive Officer; and Donna Blackman, Chief Financial Officer. As a reminder, today's conference call and webcast are accompanied by a presentation that can be found on the Stride Investor Relations website.

Please be advised that today's discussion of our financial results may include certain non-GAAP financial measures. A reconciliation of these measures is provided in the earnings release issued this afternoon and can also be found on our Investor Relations website.

In addition to historical information, this call will also involve forward-looking statements. The company's actual results could differ materially from any forward-looking statements due to several important factors as described in the company's earnings release and latest SEC filings, including our most recent annual report on Form 10-K and subsequent filings. These statements are made on the basis of our views and assumptions regarding future events and business performance at the time we make them, and the company assumes no obligation to update any forward-looking statements. Following our prepared remarks, we'll answer any questions you may have.

Now I'll turn the call over to James. James?

James J. Rhyu

Chair of the Board & CEO

Thanks, Tim, and good afternoon, everyone. Demand for our products and services remain strong. In fact, we believe industry demand and trends around online education continue to grow. We indicated in August that we believe we would grow enrollment between 10% to 15%. And while we achieved enrollment growth in that range, we still fell short of our internal expectations. While demand as indicated by application volumes remains healthy, overall growth was tempered. Well, what happened? Well, we made a couple of strategic decisions that we believe will pay dividends over the longer term, but limited our growth in the short term.

First, we invested in upgrading our learning and technology platforms with third-party industry-leading platforms. We continue to believe the investment is the right long-term decision to ensure we are deploying industry-leading technologies and systems. However, the implementations did not go as smoothly as we anticipated. We are actively engaged with our vendors to improve the situation. We heard from our customers that their engagement with these platforms detracted from their overall experience. This poor customer experience has resulted in some higher withdrawal rates and lower conversion rates than we expected.

Secondly, we wanted to focus on running high-quality programs. And in some instances, the best approach to achieve that is to limit enrollment growth while we improve our execution. We estimate that the combination of these factors resulted in approximately 10,000 to 15,000 fewer enrollments than we otherwise could have achieved. We also believe that these challenges will likely restrict our in-year enrollment growth. While demand continues to remain strong, we do not anticipate the same in-year enrollment increases that we have seen over the past few years. So our outlook for this year compared to

last year is a bit muted. However, our outlook for this business over the longer term remains bullish, and these investments should help us achieve our longer-term goals.

Our mission and our path are clear to me than ever. Families want and deserve educational choice. Meeting the demands of families in this country is an increasingly diverse task that is challenging to meet with a one-size-fits-all model. So for many families, we are providing the only real affordable alternative in meeting their needs. And the trends just continue to move in that direction. Whether it be safety issues like bullying or neighborhood violence or health issues or special needs that cannot be met by local schools, we are providing a service that is both increasingly in demand and increasingly necessary. And we are investing in areas that will help enable us to meet the needs of the families we serve. One simple example is the rollout this year offering every second and third grader free ELA tutoring. We know that in order for kids to continue learning, they need to be able to read, write and communicate.

Therefore, we are investing to ensure the youngest students in our programs can do just that. We are tomorrow's education today. We meet the diverse needs of families that want flexible, personalized career forward and tech-enabled education at an affordable cost. This fall has proven challenging for us, and I want to thank our customer-facing employees, the teachers, administrators and other staff who have worked tirelessly to help us overcome those challenges to serve the students. I also want to thank all our corporate employees who never forget who our customers are and how impactful what we do is in the lives of so many families.

Thank you. With that, I'll turn the call over to Donna.

Donna M. Blackman
Executive VP & CFO

Thanks, James, and good afternoon. As James mentioned, our results this quarter reflect the continued demand for our core offering. Families are seeking alternative options for their students to solve ongoing challenges within the existing education system. However, we also had some internal challenges this quarter as we implemented new platforms for our students. While this caused some disruption, I believe these changes are important for the long-term growth of the business. As always, I am incredibly grateful to all of the Stride employees for their commitment to the families we serve, it is an opportunity and a privilege to influence the lives of so many students each and every year.

Turning to a few highlights from our quarterly results. Revenue for the quarter was \$620.9 million, up 13% from the first quarter of last year. Adjusted operating income was \$81.1 million, an increase of almost \$23 million or 39%. Adjusted earnings per share were \$1.52 up \$0.43 from last year. And capital expenditures were \$21.7 million, up \$6.9 million. As I mentioned, our quarterly results were strong demand for our core offerings.

Our total enrollments for the quarter were up 11.3% from last year. Once again, setting a record for the number of students we will serve as families continue to seek out educational alternatives. Career Learning and middle and high school revenue for the quarter was \$241.5 million, up more than 21% from last year. Career learning enrollments grew 20% to 110,000. General Education revenue grew over 10% to \$363.1 million on enrollment growth of 5.2% to 137,700 students. Total revenue per enrollment across both lines of revenues was \$2,388, up 3.7% from last year. As we mentioned in August, we are seeing a positive funding environment, but we do expect some impact from state mix and timing. And as such, we now believe we will finish the year flattish in revenue per enrollment compared to FY '25.

Gross margin for the quarter was 39%, down 20 basis points from last year. I mentioned last quarter that we are continuing to invest in the business, which will have some impact on gross margin. Additionally, given the challenges we had this quarter, we expect to incur some additional expenses related to the platform rollout. As a result, we now expect full year gross margins will be down from FY '25 but still above what we saw in FY '24.

Selling, general and administrative expenses totaled \$173.1 million, up 3% from last year. We still expect SG&A as a percent of revenue to decrease compared to last year. Stock-based compensation for the quarter was \$10.2 million, an increase of \$1.8 million compared to last year. We expect to see an increase

in stock-based compensation this year, largely due to the impact of a long-term performance grant. And therefore, full year stock-based compensation will likely be in the range of \$41 million to \$44 million.

As I mentioned earlier, adjusted operating income for the quarter was \$81.1 million, up 39% compared to FY '25. Adjusted EBITDA was \$108.4 million, up roughly 29%. Adjusted earnings per share, a new metric we introduced last quarter was \$1.52, up 39.4% from last year. Our profitability strength was driven by the enrollment growth in the quarter and improvements in operating margins. Capital expenditures in the quarter were \$21.7 million, up \$6.9 million from last year. Free cash flow, defined as cash from operations less CapEx was a negative \$217.5 million compared to negative \$156.8 million in the prior year period. Cash flow followed our typical seasonality related to school launch and the onboarding of students in the first quarter. As in years past, we expect to see positive cash flow for the next 3 quarters. We finished the quarter with cash, cash equivalents and marketable securities of \$749.6 million.

Turning to our guidance. As James mentioned, we do not expect in-year enrollment to be nearly as strong as they have been for the past years. However, despite the short-term impacts we are seeing, our guidance this year keeps us firmly on track to achieve our FY '28 financial goals. For the second quarter of 2026, we expect to see revenue in the range of \$620 million to \$640 million, adjusted operating income between \$135 million and \$145 million; and capital expenditures between \$15 million and \$18 million. For the full year, we expect revenue in the range of \$2.480 billion to \$2.555 billion; adjusted operating income between \$475 million and \$500 million. Capital expenditure between \$70 million and \$80 million and an effective tax rate between 24% and 25%.

While any new technology can bring challenges, we are committed to delivering a quality experience for all of our families and our partners. And we will make the investments needed this year to ensure we are set up for long-term success.

Thank you for your time today. Now I'll turn the call back over to the operator for your questions. Operator?

Question and Answer

Operator

[Operator Instructions] Your first question comes from Jeff Silber with BMO Capital Markets.

Jeffrey Marc Silber

BMO Capital Markets Equity Research

I obviously want to focus on the guidance for the year. And forgive me, did you give enrollment guidance for the year? I think you had said 10% to 15% on the prior call. I'm just wondering where you're coming out now.

Donna M. Blackman

Executive VP & CFO

We did not give guidance for the full year. We gave the guidance that we gave for the count date was 10% to 15% for the count date, we came in at 11.3%. But we do not anticipate that we will see the same level of in-year enrollment growth that we've seen over the past 3 years. So based upon that assumption, the 11.3% growth that we saw from October to October, we don't expect to see that same year-over-year increase by the end of the year.

Jeffrey Marc Silber

BMO Capital Markets Equity Research

Okay. And then you did call out about 10,000 to 15,000 weaker enrollments. And you cited 2 items. One was, I guess, a bad systems implementation and other was limiting enrollment growth to focus on high-quality programs. Can we parse out what each one had that impact on that 10,000 to 15,000. And if you can give a little bit more color on each of those items, I think that would be helpful.

James J. Rhyu

Chair of the Board & CEO

Yes. I mean I think -- so the -- it's difficult to say exactly. I'll for say that first. So again, anything I say is going to be based on the data that we can see and estimate. But certainly, we believe that the majority was due to the system implementation issues. It impacted the overall customer experience. We had a higher level of withdrawals as a result. And we attribute the higher level withdrawals directly to the system issues that we're having.

So I think that's definitely the predominance of them. It's also the area that we think is most resolvable. We're working very furiously with our partners to fix those issues. And I think that the ability for us to run quality programs is tied intimately with the platform issues that we discussed because we don't want to do is to really exacerbate a problem by having more students come on to a platform that is not meeting our expectations.

Operator

our next question comes from the line of Jason Tilchen with Canaccord Genuity.

Jason Ross Tilchen

Canaccord Genuity Corp., Research Division

Great. A little bit of a follow-up on the last question. I'm wondering if you could just share a little bit more about, a, the rationale and the timing for this tech implementation and then a little bit more about exactly what went wrong.

James J. Rhyu

Chair of the Board & CEO

Yes. I think -- so the first thing is the rationale for the implementation is actually pretty simple. As we have scaled and we have more than doubled in the past 5 years. And that level of scale requires platforms that are large enough and robust enough to meet the demands of our scale and our anticipated additional growth. And so we operated a number of platforms that were either in-house proprietary platforms or with third parties where we didn't have the confidence that they were going to be at a scale to the extent we needed them to. And so investing in a new set of platforms for the long term, we believe, and we still believe execution issues aside, is the right for our business long term. And so the idea of investing in upgrading our platforms continues to be, we think, the right approach.

The timing, there's one real window of timing that you have to fall into for most of these types of upgrades where you have, in theory, the least disruption to your customers. And that is in the summer between the end of one school year and the beginning of the next school year. So we sort of have to execute in that sort of delicate window. And clearly, what we thought we were going to achieve in terms of an execution in that window, we did not achieve. Demand continues to be very strong. And so we're confident that we're going to overcome this, but the timing for this implementation sort of has to occur really in that summer period. And you really only get that window of chance, and we didn't execute as well as we should have and our partners didn't execute as well as they should have, and we're going to spend the year making sure that we get it fixed.

Jason Ross Tilchen

Canaccord Genuity Corp., Research Division

Great. And just a follow-up to that. I just want to make sure I understand. Was it essentially the implementation took longer than expected to complete and sort of blend at the beginning of the school year? Or was there something else that went wrong? And then the other sort of question, the dynamic between the 2 programs Gen Ed and Career Learning, it seems like Career Learning, the enrollment remained very strong there, while we saw a sequential decline for Gen Ed. So wondering if this sort of tech upgrade had any sort of impact on one program more than the other?

James J. Rhyu

Chair of the Board & CEO

Yes. So not a material impact on one program versus the other. So I wouldn't sort of read too much into that split. The implementation again, there was a couple of platforms there. The main platform implementation took a little bit longer than we expected. Also, we encountered more problems on the rollout than we anticipated. So even when it did roll out for the new semester, the number of problems we experienced during the rollout that impacted directly to customers' abilities to log on the resiliency of the platform, the performance of the platform, all impacted the customer trajectory and the customer experience.

So I would say it did take longer, and it continues into the year to have issues that we're continuing to fix. So I think that's sort of the thing that we're dealing with is that we're now in the year, and we have been now for a couple of months and we're continuing to ensure that we're improving the platforms in here as well.

Operator

Your next question comes from the line of Greg Parrish with Morgan Stanley.

Gregory Scott Parrish

Morgan Stanley, Research Division

I was hoping to get a little more color on the decision to limit in your enrollment growth. With the platform implementation issues, is that impacting in-year enrollment growth? Or is that not the case? Is this more of a permanent structural decision to just improve the quality of your programs?

James J. Rhyu

Chair of the Board & CEO

So I think it's a little bit of both. Clearly, we want to limit the exposure that the platform issues are having. So just sort of limiting the intake during a period when we want to make sure that the platform gets stabilized is important. So -- and that directly correlates to the quality of the program, you can't have high-quality program, if you're having customer experience issues. So I think they sort of go hand in glove.

Gregory Scott Parrish

Morgan Stanley, Research Division

Okay. So would you say that this is just a 1-year sort of in-year impact and then next year, it would probably -- and there's only been a couple of years that has been happening. Or is this -- next year, we're going to kind of -- it could go back to the way it has been in the last few years?

James J. Rhyu

Chair of the Board & CEO

Yes. I think all things being equal, meaning that assuming we fix all the issues in this year, which we do anticipate, we have a clear road map that this year, the issues will, in fact, be fixed. Assuming that demand continues to be strong as we have seen it. Yes, we would believe that next year we would be able to return to growth in year. Now obviously, a lot of variables included there, certainly not guidance of what next year is going to be. But if the demand were to maintain at the high levels that we've been seeing it and all other things being equal to, say, a last year type of performance, then yes, I mean that's what the math would suggest. But we're really focused on making sure we get it fixed this year. So that is really the #1 priority. And again, I think we have a clear path of getting these resolved in this fiscal year.

Gregory Scott Parrish

Morgan Stanley, Research Division

Yes. Okay. That's helpful color. I know there's a lot of moving parts there. And then maybe just one last question here. I just wanted to talk about competitive landscape. And I say that with you have double-digit enrollment growth here to start the year. So very healthy. But with your success over the last couple of years, there's -- other programs are going to try to copy some of your very successful strategies. I think your biggest competitor had a great start to the year. I think following your playbook in many ways. And I know you're for lifting all boats in the industry, but maybe just help us with what you're seeing out there in the competitive environment? Any changes? Just anything you're seeing on that front?

James J. Rhyu

Chair of the Board & CEO

Yes. I mean I have said pretty consistently that I want all players in the space to be successful. I want to make sure that the industry is healthy and that the industry has high-quality players. I think a healthy industry promotes higher quality players in the industry. I think that's important. I mean, congratulations to our competitors who are doing well. I think that's great for them. I think if you just look at the raw numbers, forget about percentages for a second. If you look at raw numbers, I still think our growth year-over-year outpaced our largest competitor's raw growth numbers by a large margin. When you start at a lower base, the percentage is, obviously, that's just math. But I think what we can see is demand remains strong, and we welcome healthy competition. And I think we're going to do everything we can to tee ourselves up for strong next year.

Operator

Your next question comes from the line of Stephen Sheldon with William Blair.

Matthew R. Filek

William Blair & Company L.L.C., Research Division

You have Matt Filek for Stephen Sheldon. I wanted to start with a clarification question. Are these platform issues solely related to the classroom and learning experience? Or are these platforms also used for processing enrollments and other administrative like functions?

James J. Rhyu*Chair of the Board & CEO*

Yes. It's a really straight question. It's actually both. So they are the -- what you would consider to be the more traditional customer-facing side of the equation. The platform that serves up the courses and get the people -- get the students engaged with the program, if you will, as well as the more back office administrative side you just referenced.

Matthew R. Filek*William Blair & Company L.L.C., Research Division*

Okay. That's helpful. And then what inning do you feel you're in for rectifying these platform issues? And then can you also tell us when exactly these issues started? And then one more thing as well. Would you kind of call this 2 separate platform issues? Or is it one thing? How should we think about all of that, especially timing of fixing the issues?

James J. Rhyu*Chair of the Board & CEO*

Yes. So they are distinct platforms. So it is, in this case, specific to your question, 2 distinct platforms that we're talking about in terms of back office, front office. We did not really have an indication of the impact of these issues until we got well into August. And unfortunately, the timing wasn't great because it happened to be after our last earnings call where it was more funnel activity of demand that we were seeing that was very strong. And then subsequent to that, we started seeing the withdrawal issues as the platform issues became apparent.

So the timing was unfortunate that it was after our last earnings call. And I think that when we think about sort of the road map to getting these issues fixed. We're working every day on them. We believe that over the course of the year. It's not a onetime fix that we're implementing, it is a series of fixes. We think that the biggest ones happen here in the next few months, but they will persist throughout the entire year. And in fact, we are engaged with our partners to ensure that there -- it doesn't end just when we think that have the issue fixed. But that we signed up with these partners to ensure that there was a robust ongoing set of improvements to the platforms and innovation curve that we would drive with them that they would invest behind.

And so while the immediate issues, we expect to get fixed in the next few months with the biggest issues and then sort of throughout the year with the remaining issues, we still expect to be investing in improving this platform and improving the experience for our customers well into the future. It's not just a 1-year deal in terms of the expectation we have on improvement. But the most pressing issues we expect to be fixed in this year.

Operator

[Operator Instructions] Your next question comes from Alex Paris with Barrington Research.

Alexander Peter Paris*Barrington Research Associates, Inc., Research Division*

I just have a couple of clarification type of questions. So at count date, you had 247,700 students, up 11.3% year-over-year. You said that it could have been 10,000 to 15,000 higher if it were not for these issues with the platform rollout. I guess the first question I have is, did those withdrawals occur before the count date or after the count date because the Q2 guidance calls for revenue at the midpoint of up 7.3%. So fall term enrollment was up 11.3%. And if it's flat revenue per enrollment, I don't know why revenue would be up only 7% unless these withdrawals continue to occur beyond the count date.

James J. Rhyu*Chair of the Board & CEO*

Yes. So let me try to maybe clarify how you're looking at this first and then sort of circle back maybe on sort of how these withdrawals are manifesting themselves. The comp in each of our subsequent quarters

from last year is on a rising set of enrollment and rising set of revenue. And so if what we did was we remain stable, i.e., flat you still have a deterioration on the year-over-year growth mathematically because you're talking about last year when in the course of the year, you were rising, and we do not expect sort of the same dynamic of growth that we saw last year. And so I think that's the first point.

Just mathematically, I think, you have to look at it from each quarter sequentially last year that was growing. And now we're not sort of indicating that same growth. The second piece circling back, I think, is that largely speaking, the vast majority of the growth that we think we could have, the indication of the 10,000 to 15,000 occurred in the first fiscal quarter, meaning everything in that estimate statistically is a calculation estimate through September 30.

So said a different way, if we did not have those problems, and our estimates were correct. We actually would have anticipated that our count date, our September 30 only number would have likely exceeded the upper range of our guidance, mathematically. Now a lot of assumptions built in there around how we're calculating higher withdrawal rates and things like that. But I think to your question, the predominance of it that we're indicating in that number is falling between sort of middle of August through end of September.

Alexander Peter Paris

Barrington Research Associates, Inc., Research Division

Okay. And then when we talk about in-year enrollment, I guess I was sort of thinking about the January enrollment. But implicit in your guidance is rather than sequential rise in raw enrollment from quarter to quarter to quarter like we saw through Q1, Q2 and Q3 last year. It would be a decline in the second. The second quarter raw number for enrollment will be less than the first quarter raw number enrollment. And third quarter will be less than the second quarter and presumably, the fourth quarter will be less. And then next year, once all these problems are fixed, we can presumably return to growth. Is that the way to think about it?

James J. Rhyu

Chair of the Board & CEO

Yes. So I think we're not giving exact enrollment guidance per se exactly. But I think we should probably not presume growth beginning of the year to the end of the year in enrollments. We will handle some backfills. We have some attrition during the course of the year. We -- there's likely some backfills that we will do. But yes, I think beginning of the year to end of the year, we should not anticipate growth. And we do, again, assuming the conditions remain strong as we've seen, the demand conditions remain as strong as we've seen and we can revert back to the prior retention characteristics that we had prior to this issue. We do think that we could resume to in-year growth in subsequent years.

Alexander Peter Paris

Barrington Research Associates, Inc., Research Division

Got you. And then the last question and related is revenue per enrollment. You previously said positive funding environment, probably up a bit, and now you're saying flat. Is that the delta?

Donna M. Blackman

Executive VP & CFO

As I said in my prepared remarks, we are still seeing a positive funding environment. We will see some impact from the mix and from timing. And as you may recall, one of the things that we did last year was that we had some adjustments throughout the course of the year, given the in-year enrollment growth that we had throughout the course of the year. We're not anticipating having that same level of in-year enrollment growth. So we won't have that catch-up that we had last year. And then we also had that higher funding catch-up and Q4 funding adjustment, I should say, in Q4. From the back half of the year, the comps are a little bit tougher. And then again, to the point, we don't expect to have that level of in-year enrollment growth that we saw last year that we adjusted the revenue per enrollment throughout the course of the year...

Alexander Peter Paris

Barrington Research Associates, Inc., Research Division

So has anything really changed on -- has anything really changed on the funding environment outlook? You said you still view it as a positive funding environment. But has the mix changed relative to your expectations a few months ago? The expected mix, like by state?

Donna M. Blackman

Executive VP & CFO

I'm sorry, when I talk about mix, the mix is depending upon where we grow, where the withdrawals come from during the course of the year, that's the mix we talked about. So the point that James made, we won't have any end year enrollment growth, right? The reality will happen is that we'll have some -- prior to the last 3 years. We would have in-year enrollment growth. Our withdrawals exceeded that in-year enrollment growth, right? And so we'll still continue to have that mix that will happen. And so it depends on where that mix happens, that will drive the variability that we might see in our revenue per enrollment, whether it be a higher general ed or Career Learning. But in terms of the pure funding environment, the sentiment is the same today as it was in August.

Alexander Peter Paris

Barrington Research Associates, Inc., Research Division

Got you. All right. I appreciate the extra color and I'll ask other questions as we follow up.

Operator

Ladies and gentlemen, this concludes the Stride First Quarter Fiscal Year 2026 Earnings Call. On behalf of Stride, I would like to thank you all for joining. You may now disconnect.

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