

Hippo Holdings Inc. NYSE:HIPO

FQ4 2024 Earnings Call Transcripts

Thursday, March 6, 2025 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2024-			-FQ1 2025-	-FY 2024-			-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.07	0.00	▼ (100.00 %)	(0.21)	(2.64)	(3.31)	NM	0.04
Revenue (mm)	97.83	101.90	▲ 4.16	104.00	368.10	372.10	▲ 1.09	460.22

Currency: USD

Consensus as of Feb-05-2025 12:21 PM GMT



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Call Participants

EXECUTIVES

Mark Olson

Richard Lyn McCathron
President, CEO & Director

Stewart Andrew Ellis
*Chief Financial & Strategy Officer and
Treasurer*

ANALYSTS

Andrew E. Andersen
Jefferies LLC, Research Division

Thomas Patrick McJoynt-Griffith
*Keefe, Bruyette, & Woods, Inc.,
Research Division*

Presentation

Operator

Hello, and welcome, everyone, to the Hippo's Fourth Quarter '24 Earnings Call. My name is Maxine, and I'll be coordinating the call today. [Operator Instructions]

I will now hand you over to Mark Olson, Director of Corporate Communications, to begin. Mark, please go ahead when you are ready.

Mark Olson

Thank you, operator. Good morning, and thank you for joining Hippo's 2024 Fourth Quarter Earnings Call. Earlier today, Hippo issued a shareholder letter announcing its Q4 and full year 2024 results, which is available at investors.hippo.com. Leading today's discussion will be Hippo President and Chief Executive Officer, RicK McCathron; and Chief Financial Officer, Stewart Ellis. Following management's prepared remarks, we will open up the call to questions.

Before we begin, we'd like to remind you that our discussion will contain predictions, expectations, forward-looking statements and other information about our business that are based on management's current expectations as of the date of this presentation. Forward-looking statements include, but are not limited to, Hippo's expectations or predictions of financial and business performance and conditions and competitive and industry outlook.

Forward-looking statements are subject to risks, uncertainties and other factors that could cause our actual results to differ materially from historical results and/or from our forecast, including those set forth in Hippo's Form 10-K filed today. For more information, please refer to the risks, uncertainties and other factors discussed in Hippo's SEC filings, in particular, in the section entitled Risk Factors in our Form 10-K.

All cautionary statements are applicable to any forward-looking statements we make whenever they appear. You should carefully consider the risks and uncertainties and other factors discussed in Hippo's SEC filings. Do not place undue reliance on forward-looking statements as Hippo is under no obligation and expressly disclaims any responsibility for updating offering or otherwise revising any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

During this conference call, we will also refer to non-GAAP financial measures such as total generated premium and adjusted EBITDA. Our GAAP results and description of our non-GAAP financial measures with full reconciliation to GAAP can be found in the fourth quarter 2024 shareholder letter, which has been furnished to the SEC and is available on our website.

And with that, I'll turn the call over to Rick McCathron, our President and CEO.

Richard Lyn McCathron *President, CEO & Director*

Thank you, Mark, and good morning, everyone. Thank you for joining us. Before we get into our Q4 and full year 2024 results, I wanted to take a moment to acknowledge the pain the community of Los Angeles has felt in January because of the wildfires and our role as an insurance company to help alleviate that pain. A handful of our Hippo homeowners customers and their families completely lost their homes to the fires. We responded immediately with the systems arranging temporary housing, accelerated payouts of policy limits and have been working with our builder partners to explore ways to help reduce the time to rebuild. Other customers suffered partial losses and/or damage from smoke and ash, and we are supporting them with both financial and operational assistance with remediation.

Because I know you are curious about the financial impact of these events, I can say that our preliminary pretax estimates of cat losses from these fires is approximately \$42 million. A few days ago, we signed a definitive agreement to sell our subrogation rights for the Eaton portion of the wildfires. So this figure is net of expected recoveries from both reinsurance as well as subrogation and includes the impact of the assessment from the California FAIR Plan. Approximately \$30 million of this amount relates to the Hippo home insurance program with the remaining \$12 million related to non-Hippo programs supported by our Spinnaker fronting business. The impact from these losses will be reflected in our Q1 2025 financial results.

One more thing I should add is that the Hippo portion of these losses was related to legacy HHIP policies, which we have been working to reduce our exposure to over the past few years. None of these losses related to homes we cover that came from our new homes channel, which represents a substantial majority of the new business we've been writing in California for some time.

Now turning to our performance for both the full year and fourth quarter of 2024. I think it's safe to say that this was the most successful year and quarter in the company's history. Over the course of the year, we improved our HHIP gross loss ratio by nearly 30 percentage points, streamlined our operations to reduce fixed costs and in Q4, achieved our long-stated goal of generating positive adjusted EBITDA, both on time and to a greater extent than we expected. We did all of this while nearly doubling our annual revenue and laying the foundation across each of our business units to deliver margin-enhancing growth for years to come.

In our core HHIP homeowners insurance program, we completed the broad transformation of our policy portfolio that was designed to reduce cat-related volatility and bring our loss ratios down to target levels. We accomplished this through rate increases, structural changes to our coverage and reductions in exposure to wind and hail by approximately 80% compared to mid-2023 levels. We achieved a gross loss ratio of 73% for calendar year 2024 and a non-cat PCS loss ratio of under 45% in the fourth quarter, approaching our long-term target level with further improvements expected in 2025.

In our Insurance as a Service business, we have demonstrated the ability to achieve consistent long-term growth and profitability over the years while maintaining our quality bar for program vetting and underwriting. In 2024, we grew our annual revenue by more than 40% while maintaining discipline in both program selection and risk participation, which resulted in an annual net loss ratio of 39%. There is no shortage of potential programs for Spinnaker to work with. In fact, we reviewed more than 100 opportunities in 2024, but we do not think we need to compromise on quality to achieve compelling financial results.

During the year, we focused on building a solid foundation for future growth for our Hippo homeowners insurance program with a particular focus on the new homes channel. We added new builders and carrier partners, enhanced our already differentiated risk allocation technology and made additional investments in operational excellence. As we move into 2025, we are working to further expand our network of partners and to deepen relationships with our current partners, all while working with this group to redefine what is possible in helping buyers of newly built homes secure insurance quickly and easily as part of the home buying process.

As we turn our attention to our outlook for 2025, I want to note that even with factoring in the short-term impact of the L.A. fires, we feel very well positioned in 2025 to deliver substantial improvements to operating income versus our 2024 results. Stewart will talk more about this in a few minutes, but because I know you're all curious, I will say with conviction that we remain on track to turn net income profitable by the end of 2025.

I'm proud of the progress we've made as a business over the past 12 months and all of our Hippo team members who have made this progress possible. I'm even more excited about what's next on the Hippo journey, and we look forward to sharing more about our future plans and a special day for investors on June 12 in New York City. We'll share more details about that event soon.

Now I'd like to turn the call over to our Chief Financial Officer, Stewart Ellis, to walk through the highlights of our full year 2024 and Q4 financial results as well as our expectations for 2025.

Stewart Andrew Ellis
Chief Financial & Strategy Officer and Treasurer

Thanks, Rick, and good morning, everyone. 2.5 years ago, in September 2022, Hippo hosted its first Investor Day. During that event, we committed to deliver positive adjusted EBITDA by the end of 2024 and to growing our revenue by 3.5x between then and calendar 2025 to between \$420 million and \$450 million. In the fourth quarter of 2024, we delivered on that guidance by posting positive adjusted EBITDA of \$8.5 million and revenue that represents an annual run rate of approximately \$410 million, which means we are on track to exceed our Investor Day revenue target in 2025. Over the past 2.5 years, we've responded quickly to changes in both the insurance and financial markets, transformed the fundamental risk dynamics of our business and laid a strong foundation for future margin enhancing growth.

We've seen the benefits of these changes over the past few quarters, and they remain present as factors that helped us exceed our adjusted EBITDA guidance in Q4. In the fourth quarter, our total generated premium or TGP grew by 10% year-over-year to \$295 million, driven by 22% year-over-year growth in our Insurance as a Service segment. This growth was partially offset by an expected decline of 8% in our Hippo home insurance program segment due to the completion of our efforts over the past 12 months to manage down our exposure to high cat geographies. If we normalize both current and prior year periods to exclude the TGP from our First Connect platform, which we sold a majority stake in during the quarter, the year-over-year growth rate would rise from 10% to 16%.

Revenue growth in Q4 once again outpaced TGP growth, increasing 58% year-over-year to \$102 million, up from \$64 million in Q4 of last year. Like in the first 3 quarters of the year, higher premium retention at HHIP and volume increases in the Insurance as a Service and Services segments were the primary drivers of growth. As a result of the higher premium retention at HHIP, net earned premium as a percentage of gross earned premium in our HHIP business rose to 83% in Q4, up from 29% a year ago. Like in previous quarters, Insurance as a Service revenue growth was driven mostly by the premium growth from existing programs, augmented by slightly higher risk retention with some of the programs. We also launched a few new programs, which we expect to become significant growth drivers in 2025.

Our HHIP gross loss ratio improved 3 percentage points year-over-year to 50%. The HHIP non-PCS loss ratio improved at an unprecedented rate of 20 percentage points to 43%, driven by the broad transformation we have been working on over the past 12 months, the activities of which included rate increases, structural changes to our coverages and other underwriting actions. We achieved this improvement despite the portfolio level shift away from higher cat geographies which, all things equal, would have tended to raise the non-PCS loss ratio.

The HHIP/PCS cat loss ratio came in at 7% during Q4. This represents an increase of 17 percentage points year-over-year, which is mostly explained by substantial current and prior accident period reserve release in the fourth quarter of 2023 a year ago, which resulted in a PCS loss ratio of negative 10% in that period. The combination of year-over-year improvements in gross loss ratio and the improvements to our reinsurance structure, working our way into our financials drove an even larger improvement in our HHIP net loss ratio, which came in at 60% during the quarter, an improvement of 46 percentage points versus Q4 of last year.

In Q4, we again delivered significant top line growth while simultaneously reducing our operating expenses, both as a percentage of revenue and on an absolute dollar basis. Relative to Q4 of last year, our GAAP sales and marketing, technology and development and general and administrative expenses collectively declined by \$8 million, a year-over-year decrease of 19%. When combined with the increases in our revenue over the same period, these costs fell from 69% of revenue in Q4 of last year to 35% of revenue this quarter.

Q4 net income came in at positive \$44 million, an \$86 million improvement versus Q4 of last year. \$46 million of this improvement relates to the onetime gain from the sale of a majority stake in First Connect. The remaining \$40 million of the improvement was driven by revenue growth at HHIP, enabled by our improved reinsurance structure, improvements to HHIP's gross loss ratio, better operating leverage and continued growth in our businesses that are less exposed to weather and underwriting volatility.

Our Q4 adjusted EBITDA came in at positive \$8.5 million, ahead of our previous guidance and a \$31 million improvement versus Q4 of last year. The primary drivers of the year-over-year improvement are the same as the non-First Connect drivers of the net income improvement I just walked through. Q4 ending cash and investments increased quarter-over-quarter by \$25 million to \$571 million. This increase was driven by positive cash flow from the business, seasonal working capital changes associated with payments to reinsurers and proceeds from selling a majority of our shares in our First Connect platform, partially offset by our repurchase of shares during the quarter.

Turning now to our guidance for 2025. Beyond the Q4 2024 adjusted EBITDA target we set at our Investor Day back in 2022, during that event, we also committed to deliver 2025 revenue of between \$420 million and \$450 million. We are now in a position to raise that revenue guidance to \$465 million for calendar 2025 and to guide to positive net income by Q4 of 2025.

The revenue guidance represents a 25% year-over-year growth rate from 2024 revenue on a GAAP basis and 27% year-over-year growth when First Connect is removed from our 2024 results. The expected improvement to turn net income profitable by Q4 '25 is driven by the continuation of the trends in the business that drove our adjusted EBITDA improvement in 2024.

Specifically, excluding the benefits of prior accident year reserve releases, we expect continued year-over-year improvement in both gross and net loss ratios in calendar 2025 versus 2024 levels, even when factoring in the impact of the Q1 wildfires. As far as Q4 2025 specific guidance, we expect HHIP gross loss ratio to be less than 60% with an expected PCS cat load in that quarter of 15%. We expect HHIP net loss ratio in Q4 '25 to be less than 67%. Beyond improvements to loss ratio, we expect continued improvements to operating leverage with fixed expenses remaining roughly consistent with current levels despite the higher expected revenue.

And now I'd like to turn the call back over to our CEO, Rick McCathron.

Richard Lyn McCathron
President, CEO & Director

Thanks, Stewart. Before we open the floor for questions, I want to take a moment to mention an announcement in our Form 10-K that we filed this morning. Just over 6 years ago, we hired Stewart as Hippo's Chief Financial Officer. Since that time, he and the team he has assembled have been instrumental in our success of the business. One of the things we emphasize as leaders at Hippo

is developing our team and preparing them to take on greater responsibility. I've been particularly pleased with Stewart's efforts in this regard as it relates to our finance organization. And yesterday, our Board of Directors formally recognized this by appointing our current VP of Finance, Guy Zeltser, to be Hippo's next Chief Financial Officer, effective on Monday, March 10.

Beyond his responsibilities as our CFO, Stewart has also been serving as Hippo's Chief Strategy Officer. He has been a valuable thought partner to me and our leadership team in this capacity, and I'm looking forward to his continued contributions in this more focused role. Most of you have already had the pleasure of interacting with Guy over the years. And while he has big shoes to fill, I can't imagine a better choice to fill them. Please join me in thanking Stewart for all of his contributions as Hippo's CFO, and congratulating Guy on his promotion. You'll hear more directly from Guy in his new capacity on our next earnings call. Now operator, we'd be happy to open the floor for questions.

Question and Answer

Operator

[Operator Instructions] Our first question today comes from Tommy McJoynt from KBW.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

We were a little surprised to see the sale of the Eaton Fire subrogation rights as we have generally heard from other carriers that those rights and potential recoveries are not being sold. Can you talk about the strategy behind that? I assume none of that was driven by a need for liquidity. But just talk about the potential upside you guys are missing out on? Or just why you guys ultimately sold those?

Stewart Andrew Ellis
Chief Financial & Strategy Officer and Treasurer

Yes. Happy to take that one, Tommy, this is Stewart. This is -- I'll confirm your suspicion that this is not due to liquidity needs. This was due to really looking at the potential for what we could realize in terms of proceeds in the market now and essentially comparing the economic value of that to what we would expect to receive by continuing to pursue the claims through the normal legal process, both the time value of money as well as the ultimate price that we were able to achieve in the market today made that just an attractive opportunity for us to do in this world.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Got it. And how does such an early in the year cat loss event impact your reinsurance protection for the rest of the year? Perhaps you could share what second event retention looks like? And just remind us when your reinsurance renewal programs go into effect when you guys are negotiating this?

Stewart Andrew Ellis
Chief Financial & Strategy Officer and Treasurer

Yes. Happy to take that one as well. So the Hippo specific -- or the Hippo program-specific reinsurance renewals are a January 1 renewal. So this was right after the renewal for 2025. The size of the losses associated with the Hippo program, taking into account the subrogation, barely made it into our reinsurance tower. It's not just into the first layer by a small amount. So our existing reinsurance is more or less intact, even when giving effect to these events. So we don't really feel like it has a meaningful impact on the protection that we would have for other potential events over the course of the rest of the year.

Richard Lyn McCathron
President, CEO & Director

Yes. I think -- and this is Rick, Tommy. Just to emphasize on that, we don't think our reinsurance partners are going to be negatively impacted from our portfolio, as Stewart mentioned, barely made it into the first layer. And on our XOL, we have 3 layers of reinsurance protection. So this was not an overly significant event from a reinsurance perspective.

Thomas Patrick McJoynt-Griffith
Keefe, Bruyette, & Woods, Inc., Research Division

Got it. And then just last question. It sounds like you're giving guidance for the full year for revenue and then bottom line figure for just the fourth quarter of '25. I guess are there any sort of guidepost you could help us think about for the full year 2025 on a bottom line basis, either EBITDA or an earnings basis?

Richard Lyn McCathron
President, CEO & Director

Yes. I'm going to go ahead and punt a little bit on this to our earnings -- or excuse me, to our Investor Day event on June 12. If you recall, 2.5 years ago, we had an Investor Day where we gave sort of 3-year financial projections. Our intention is to also do that on our Investor Day, along with sharing some other strategic opportunities that we've been exploring and working with to really grow and expand our portfolio now that we've gotten our house in order, our loss ratios are near our desired levels. We're really excited to share that. So we're going to give a lot more detailed guidance on a 3-year basis on June 12.

Stewart Andrew Ellis

Chief Financial & Strategy Officer and Treasurer

Tommy, I'll add a little bit more. In the guidance that we did give earlier in the discussion, I think we did give you some indication of where we feel like our operating expenses are going to be. We talked about revenue. We talked a little bit about kind of the loss ratio progression. It should be possible to infer kind of how we're feeling about the full year on some of those things. But as Rick said, we will -- we'll try to make that a lot more specific as we get into the year.

Operator

[Operator Instructions] Our next question comes from Andrew Andersen from Jefferies.

Andrew E. Andersen

Jefferies LLC, Research Division

I guess, first, congratulations, Guy and Stewart, it's been a pleasure over the years. Maybe just on the quarter and thinking about California here, does the recent events kind of change your thinking about exposures in the state? And could you maybe provide an update on where you are with derisking a little bit? I think there was still some remediation as of last quarter, but to a more moderate degree than prior periods.

Richard Lyn McCathron

President, CEO & Director

Yes, Andrew, this is Rick. Happy to take that question. First, to be clear, you're still going to have lots of interactions with Stewart. He's not going anywhere. So we're excited about what we'll be sharing during Investor Day. And as a result, Stewart has got a lot of work to do on that front. So related to the California fires, we did mention in our pre-comments that none of our -- none of the losses in these fires were related to our new home business, which is substantially all the new business we've been writing in the state of California in a fairly diversified fashion. So this doesn't change that perspective at all for us.

All of the losses were a result of the historical HHIP portfolio. We have been working both independently and with the state to figure out a way that we can reduce some concentration exposures on that particular portfolio, also allowing us to write new business in areas that we deem are appropriate where we have very solid underwriting guidelines. So I think this is -- despite the tragedy, I think it's an opportunity to further refine our efforts in California. It's a big state for us. It's an important state for us. But we don't think this dramatically changes our outlook.

Related to the second part of your question on our, what we call project volatility, we have done the vast majority of the corrective items. Those are already in flight. They have not all shared or reflected in our P&L just yet. So we're excited. We have a little bit of favorable tailwinds as it results to that. But there's still a little bit of work to be done. The biggest portion of that was California. And again, we're working with the regulators on how to finish that portion of our remediation. But we're -- all the work is substantially done. Now it's just time to earn that positive benefit into the portfolio.

Andrew E. Andersen

Jefferies LLC, Research Division

And then on IAS, I think you mentioned a pretty strong pipeline, but being careful on risk selection. Kind of how are you seeing the competitive environment there and thinking about growth just as perhaps reinsurance costs moderate for the industry a bit?

Richard Lyn McCathron

President, CEO & Director

Yes, Andrew. Great question. So I -- a couple of things. One, I just want to reemphasize the quality asset that Spinnaker is. We had the opportunity to purchase it approximately 4 years ago as we were needing a risk-bearing entity and through our management of that entity over the last several years, we recognized just the quality of individuals we have in that organization. The pipeline for fronting business is very full. It reduces as you start thinking about the quality of the various MGAs that we're starting to see. A lot of our growth in that particular channel has been with our existing MGA partners that have long track records of positive underwriting results.

And these are the areas where we really get to know those partners. These are the areas in which we consider taking a bit more risk on these programs. So we feel good about continued organic growth, and we are also adding new programs that we deem of high quality. Because these are high-quality programs, we're not at all concerned with how reinsurance would look at these various programs. And if -- and just as a reminder, each of these programs have their own reinsurance panels. And then we, of course, have a corporate cap

that goes over each one of these individual programmatic reinsurance panels. So the performance of our programs generally have been very strong, and we're excited that we have an opportunity to grow with those partners and add new partners.

Stewart Andrew Ellis

Chief Financial & Strategy Officer and Treasurer

And Andrew, I'd also say, I think we have a differentiated product and service within the fronting space. I think both the quality of the relationships that Rick mentioned as well as some of the things that we can offer them in terms of support are part of the reason why we have such a full pipeline, and we're excited about that as well.

Andrew E. Andersen

Jefferies LLC, Research Division

And maybe just one more. Sales and marketing, it's come in over the last couple of years. How are you thinking about that spend line and seasonality into '25?

Stewart Andrew Ellis

Chief Financial & Strategy Officer and Treasurer

Yes. I think -- I mean, we have benefited from getting more efficient in our spend and our conversion rates and everything else that drives the top of the funnel metrics for us. So we've been able -- we feel like we've been able to continue to grow with being very disciplined in the spending. I think we see opportunities out in the market, and we will be aggressive if we feel like we can grow in a way that will continue to enhance the margin. I think we are not finished making the business more efficient. We are not finished in driving additional bottom line results.

As we talked about earlier, we are -- we turned adjusted EBITDA positive in Q4, but we are very focused on making sure we are net income positive in 2025 by the end of the year and continuing to get more efficient on the -- all aspects of the, what we'll call, fixed costs is an important part of that. But I do think that we have -- we've got opportunities in the market to grow where we can spend some money and have a high return on that from a growth standpoint.

Operator

[Operator Instructions] We have no further questions, so I'll hand back over to Rick McCathron for closing remarks.

Richard Lyn McCathron

President, CEO & Director

Thank you so much, operator, and thank you for joining us. We are very excited about the results of the quarter and the full year, and we look forward to sharing more updates as we have our Q1 earnings call and as we share a more futuristic plan for our longer-term operations and opportunities in our Investor Day on June 12. Have a very good day, everyone.

Operator

Thank you. This does conclude today's call. Thank you for joining. You may now disconnect your lines.

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