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EnLink Midstream LLC (ENLC)

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the EnLink Midstream Second Quarter 2021 Earnings Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Brian Brungardt, Director of Investor Relations. Please go ahead.

Brian Brungardt

Director of Investor Relations, EnLink Midstream LLC

Thank you and good morning, everyone. Welcome to EnLink's second quarter of 2021 earnings call. Participating on the call today are Barry Davis, Chairman and Chief Executive Officer; Ben Lamb, Executive Vice President and Chief Operating Officer; and Pablo Mercado, Executive Vice President and Chief Financial Officer. We issued our earnings release and presentation after the markets closed yesterday, and those materials are on our website. A replay of today's call will also be made available on our website at www.enlink.com.

Today's discussion will include forward-looking statements including expectations and predictions within the meaning of the federal securities laws. The forward-looking statements speak only as of the date of this call, and we undertake no obligation to update or revise. Actual results may differ materially from our projections, and a discussion of factors that could cause actual results to differ can be found in our press release, presentation, and SEC filings.

This call also includes discussions pertaining to certain non-GAAP financial measures. Definitions of these measures as well as reconciliation of comparable GAAP measures are available in our press release and the appendix of our presentation. We encourage you to review the cautionary statements and other disclosures made in our press release and our SEC filings including those under the heading Risk Factors. We'll start today's call

with a set of brief prepared remarks by Barry, Ben, and Pablo, and then leave the remainder of the call open for questions and answers.

With that, I would now like to turn the call over to Barry Davis.

Barry E. Davis

Chairman & Chief Executive Officer, EnLink Midstream LLC

Thank you for joining us today. I first want to take a moment to remember Jim Crain who joined the EnLink family as a member of the board of directors of our predecessor company in 2005. Jim served us faithfully and diligently for the last 16 years including attending an EnLink board meeting on the last day of his life. His contribution to EnLink was great, and we will miss Jim.

On the call today, we will discuss our second quarter results, our current operating environment, and the opportunities we see for our Carbon Solutions Group. After the significant disruption from severe weather in February, the strong momentum exiting the first quarter continued throughout the second quarter with producers adding rigs and completing wells that had been drilled but not completed.

We achieved adjusted EBITDA of \$258 million in the second quarter, which built on the strong first quarter results and represents over 6% growth from prior year, net of MVC payments that ended in 2020. This is a tremendous outcome and positions us well for the second half of 2021.

With continued momentum and producer activity on our footprint, and strong commodity prices, we expect to end 2021 in the upper end of our previously updated adjusted EBITDA guidance range of \$1.02 billion to \$1.06 billion. We generated approximately \$72 million in free cash flow after distributions during the second quarter, which takes our trailing 12-month total to nearly \$360 million.

As the first half of 2021 has shown, we remain focused on executing our plan and driving sustainable value. Our first execution plan priority is to optimize our existing business and improve efficiencies. After leading our peers last year with a greater than 20% reduction in operating, and general and administrative expenses, we have maintained those reductions through increased efficiencies even with the growth and inflation we are now seeing.

The second priority of our execution plan is to maintain financial flexibility, and we have continued to make significant progress on this front. As I've already mentioned, we are generating strong cash flow and using the majority of that cash to pay down debt. We have previously discussed our near-term leverage goal is to get below 4 times, and that goal is now within arm's reach as we exited the second quarter at 4.1 times.

Our third priority is deliberate and disciplined growth. As we previously announced in the second quarter, we closed the Amarillo Rattler transaction, a very attractive Permian Basin acquisition with an excellent customer behind it, and we remain very confident in achieving a 6x multiple on full year 2022 EBITDA.

As far as capital projects, our team has been hard at work as we continue to utilize our capital-light growth model to handle higher Permian volumes driven by robust customer activity. We have been expanding our Midland Basin capacity creatively and efficiently through a plant relocation and other plant optimizations.

Now, looking ahead, I am excited about the opportunities in our Louisiana business. Our team continues to work on exciting downstream growth opportunities, and we expect to bring some of those low-capital, high-return opportunities to closure in the next few months.

In addition, we announced in June, the formation of the Carbon Solutions Group, which will focus on carbon capture, utilization, and sequestration. As we all know, the United States as a whole and a growing number of companies have set aggressive climate goals focused on reducing greenhouse gas emissions. According to the IEA's Sustainable Development Scenario, CCUS should account for approximately 15% of the cumulative reduction in emissions. Within the US, the Mississippi River Corridor in the Gulf Coast of Louisiana is one of the largest CO₂-emitting regions. And we believe that our extensive assets in the ground, our customer relationships, and long history of operating in the State of Louisiana uniquely position us to build a business aimed at helping companies achieve their carbon reduction goals.

Last but not least, our fourth priority is sustainability and safety. These are part of our DNA, and I'm pleased to report that we have strengthened our governance through the formation of board level sustainability committee to monitor our performance, risks, and opportunities.

In summary, I believe the momentum that we are seeing in our business today coupled with a strong first half of 2021, and our team's relentless focus on the execution of our plan have us well positioned to drive sustainable value and growth in the second half of 2021 and beyond.

With that, I'll turn it over to Ben to discuss our operational update.

Benjamin D. Lamb

Executive Vice President & Chief Operating Officer, EnLink Midstream LLC

Thanks, Barry, and good morning, everyone. I'll start with the Permian segment, which continues to see robust activity and generated \$44 million in segment profit. Segment profit includes \$10 million of operating expenses in the second quarter related to our Midland Basin plant relocation project, Project War Horse. The second quarter of 2021 also marked the fourth consecutive quarter of positive segment cash flow with \$4.5 million being generated. Average natural gas gathering volumes were 11% higher compared to the first quarter of 2021, and increased by approximately 18% compared to the second quarter of 2020.

Average natural gas processing volume for the second quarter were 9% higher compared to the first quarter of 2021, and increased by approximately 7% over the prior year quarter. Project War Horse continues to progress as planned. As previously announced, we expanded the scope of the project which will bring its processing capacity to 95 million cubic feet per day. We expect to place the plant in service in the third quarter with the full expanded capacity available in the fourth quarter.

Between an uptick in rig activity during the second quarter and the recent Amarillo acquisition, we anticipate our capacity will be well utilized in the first half of 2022. So, we continue to work on other capital light alternatives to accommodate higher volumes. We have also seen Delaware activity pick up and forecast the restart of the Tiger plant in early 2022.

Turning now to Louisiana where the second and third quarters are seasonally lower, segment profit for the second quarter of 2021 came in at \$67.3 million, which represents an increase of 5.5% over the prior year quarter. Louisiana continues to generate very strong cash flow with \$65.1 million in the second quarter of 2021, and we continue to forecast strong cash flow for the remainder of 2021. The segment saw strong gas and NGL volumes with NGL margins at expected summer seasonal lows.

Moving to Oklahoma, our team continued to execute as operator activity picked up during the quarter. Segment profit for the second quarter of 2021 came in at \$85.6 million. This compares to \$55.5 million reported in the first

quarter of 2021, which was negatively impacted by Winter Storm Uri. Excluding the impact of MVC payments that expired in 2020, the segment profit in the second quarter grew over 5% compared to the fourth quarter of 2020.

Oklahoma also continued to show significant segment cash flow of \$80.7 million in the quarter. Oklahoma is a combo play where gas, NGL, and crude prices all matter for producer economics. We have seen our customers, particularly private operators, look to take advantage of the improved commodity backdrop and we saw rig activity on our footprint approximately double during the second quarter when compared to the first quarter.

The Devon/Dow JV continues to progress as planned with its two rig program for 2021. The first volumes are projected to hit our system in the third quarter that will be more significant than the fourth quarter. As producers have been more active, we expect our overall decline rate in Oklahoma to moderate significantly, and we currently forecast a decline in the mid-single digits for 2022 based on current operator activity and plans.

Wrapping up in North Texas, segment profit for the quarter was \$57.9 million which is slightly below the \$61.9 million reported in the first quarter of 2021, excluding the approximate \$50 million one-time impact of Winter Storm Uri. Gathering volumes for the second quarter of 2021 increased 2% from the first quarter of 2021.

Similar to Oklahoma, North Texas producers benefit from higher gas and NGL prices. Our primary customer, BKV, continues to focus primarily on reactivating old wells and restimulating active wells. This, along with some new completion activity from other customers, is moderating decline rates with the second quarter coming in at 7% year-over-year. With that, I'll pass it over to Pablo to discuss our financial results.

Pablo G. Mercado

Executive Vice President & Chief Financial Officer, EnLink Midstream LLC

Thank you, Ben, and good morning, everyone. I'll start with the second quarter highlights. As Barry mentioned, EnLink delivered a solid second quarter, building off the momentum exiting the first quarter and achieving \$258 million of adjusted EBITDA and \$72 million of free cash flow after distributions, with all four of our asset segments delivering positive cash contributions. Excluding the impact of the MVC that rolled off at the end of the year, adjusted EBITDA increased approximately 6.5% from the second quarter of 2020.

Also, although there's always volatility in quarterly cash flows due to timing of capital expenditures, EnLink has delivered \$359 million of free cash flow after distributions over the last 12 months. I am very proud of our EnLink team for their continued focus on execution, including their focus on efficiencies and on holding on to the significant cost savings that we achieved last year.

The focus is helping us offset some inflationary pressures we have seen this year, primarily in labor and in materials like chemicals and lubricants. Our operating, and general, and administrative expenses in the first half of 2021 are just about flat from the second half of 2020, after adjusting for Project War Horse operating expenses, and the noise from Winter Storm Uri. We continue to see the significant cost reductions that we achieved in 2020, as largely sustainable in a modest growth environment, which is what we're experiencing so far this year.

On the capital expenditures front, our team continues to focus on a capital light, high returns approach. As Ben mentioned, our Midland Basin plant relocation project is going well, and the scope expansion of 15 million cubic feet a day only added a couple of million dollars of capital. Also in June, we announced a New Chickadee Crude Terminal in the Midland Basin which will secure additional gathering volumes and blending opportunities. We expect this project to cost about \$12 million, and achieve a low-single digit 2022 EBITDA multiple. These projects are both incorporated in our updated CapEx guidance from June which was \$165 million to \$195 million.

Now as Barry and Ben, both mentioned, we are seeing strong producer activity which improves and makes more visible the growth outlook for our 2022 volumes. As a result, where we sit today we expect to be at the higher end of CapEx guidance. But we will continue to monitor market conditions closely and remain nimble with our plans.

On the balance sheet side, we find ourselves in a much stronger position than where we were a year ago. We have ample liquidity, have made a lot of progress on debt reduction, and have effectively managed our term loan maturity while preserving the ability to continue to de-lever through cash flow. During the quarter we've paid down an additional \$100 million of our term loan, and we continue to be well positioned to repay the remaining \$250 million by year end given our strong free cash flow generation and our \$1.75 billion undrawn revolver.

Our debt to adjusted EBITDA ratio under our credit facility was just below 4.1 times at quarter end. That puts us very close to our near-term leverage goal of under 4 times. And as a result, we're beginning to consider a more balanced capital allocation approach that allows us to continue to de-lever the balance sheet, but [ph] mixes in (00:15:51) more return of capital to unit holders. This could include common unit distribution increases as well as common and preferred unit buybacks. To that end, we repurchased \$10 million of common units between June and July, and we will continue to be opportunistic with their unit repurchase program.

Now, as we look ahead following the successful first half of 2021, we feel very good about our outlook for the second half of the year. As Barry mentioned, with the current market backdrop, we expect to end 2021 in the upper end of our adjusted EBITDA guidance range of \$1.02 billion to \$1.06 billion.

As a reminder, we do have seasonality in our Louisiana NGL business, which is typically strongest in the fourth quarter. In addition, we continue to see solid operator activity across the Permian, strong industrial and commodity pricing trends in Louisiana, and improving operator activity in Oklahoma and North Texas positioning us to achieve continued growth in 2022.

With that, I'll turn it back to Barry.

Barry E. Davis

Chairman & Chief Executive Officer, EnLink Midstream LLC

Thank you, Pablo. I'll sum up our discussion so far by saying this. EnLink delivered another strong quarter and is solidly on track to be in the upper end of our updated adjusted EBITDA guidance for 2021. The outlook for volumes and cash flow growth in 2022 has also improved. Our strong performance over the last several quarters has enabled us to reduce debt outstanding, approach our near-term leverage goal of less than 4 times, and begin to review a more balanced use of the free cash flow after distributions.

We're not stopping there, however. Our team wakes up every day with a focus on how to be more efficient and grow in a sustainable and capital-light manner. This is exemplified with the work our Carbon Solutions Group is doing to partner with companies to help them achieve their emissions reduction goals.

With that, you may now open the call for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Shneur Gershuni with UBS. Please go ahead.

Shneur Z. Gershuni
Analyst, UBS Securities LLC

Q

Hi. Good morning, everyone. Maybe to start off, I kind of want to focus, Barry, on your closing remarks and sort of how you talked about this setup for 2022. When I sort of look at the numbers today, Oklahoma seems to be outperforming your expectations just talking about drilling activity there. You're steering us towards the higher end of your guide which would suggest a strong exit rate as well also. And at the same time, you talked about the Tiger plant potentially coming online in 2022. I'm not sure if you have specific [indiscernible] (00:19:10). But I was kind of wondering at how you're thinking about the growth rate in 2022 versus 2021. Do you think it's modest growth versus where you exit in 4Q or do you think that's there's going to be a step-up especially with all the efforts you've done on reducing costs and improving efficiencies and so forth?

Barry E. Davis
Chairman & Chief Executive Officer, EnLink Midstream LLC

A

Yeah, Shneur. This is Barry. Thank you for the question. And look, I think you did a good job summarizing the things that we highlighted. They are positive momentum that we've experienced during the first half and we expect to continue through the second half, I mean, all of those are very good drivers to what we expect in 2022.

That being said, we're not going to give guidance today on 2022. I think we've said, Shneur, what really needs to be said. We're seeing increased producer activity in the key basins of Oklahoma and North Texas, great opportunities that we're taking advantage of in the Louisiana market, and then the strength of the Permian growth has just continued, and we're very optimistic about what will happen in 2022. So, the level of growth in 2022, we haven't actually quantified at this point either anecdotally or by percentages. But I would just say we're continuing to increase our optimism about the growth that we'll see in 2022.

Ben, would you add any specific comments around the basins?

Benjamin D. Lamb
Executive Vice President & Chief Operating Officer, EnLink Midstream LLC

A

Maybe just a few things. In Oklahoma, as said just a minute ago, we've seen rig activity roughly double. Right at the moment, we have seven rigs working on dedicated acreage from four or five different producers, two of those are the Dow JV rigs, but the others are other companies, mostly the private operators. And so, we're at a point where we now see 2022 decline significantly moderating to be in the mid-single digits versus 2021 volumes.

If you look out in the Permian, you touched there on Exxon's plans in the Delaware. Certainly, we do have updated plans from Exxon that support the restart of the Tiger plant early next year. But it's not just Exxon. We have a fairly diverse book of business in the Delaware. And in addition to Exxon, one of our other large independent public producers is accelerating their activity on our dedicated acreage. So that, along with Exxon, along with some other activity from smaller producers, is what's leading to the restart of the Tiger plant. And, of course, Midland continues to be our strongest basin overall with 17 or 18 rigs working on dedicated acreage today on the gas side.

Shneur Z. Gershuni*Analyst, UBS Securities LLC*

Q

Okay. That – really appreciate that. And I understand it's too early to provide 2022 guidance. But just kind of want to make sure I understood the drivers. Maybe to pivot a little bit here, I'm not sure if it's specifically a Pablo question, but you sort of talked about how you're evaluating options looking at buybacks, looking into preferreds. I know that you've got \$250 million left on the term loan, but you have a lot of capacity on your revolver as well, too. Is kind of the thought process there to sort of think about either, A, just retiring that completely by putting it on to the revolver and being opportunistic around buybacks and preferreds, and then sort of use the excess free cash to kind of balance and work that down, just given the flexibility that the revolver has or is that something kind of that you want to take away or take care of first, and then buybacks and preferreds happen afterwards? Just kind of interested in your thought process and how it will sort of sequence itself out over the next, let's say, 6 to 18 months?

Pablo G. Mercado*Executive Vice President & Chief Financial Officer, EnLink Midstream LLC*

A

Yeah, Shneur. Thanks for the question. We have made a lot of progress on the capital structure as you mentioned. We were very purposeful when we termed out the vast majority of the term loan in the fourth quarter with a bond deal to leave some outstanding, so that we could continue to de-lever. If you term out all of your debt, then it's hard to do that, right? So, we've got the \$250 million remaining outstanding. We'll take care of that through cash flow and put any remaining piece on the revolver and then continue to chip away at it.

I would say we don't need to see that before we turn to what we're calling a more balanced capital allocation approach to increase the returns to the equity holders a bit. That's more related to how close we are to our leverage target of just below 4 times.

Shneur Z. Gershuni*Analyst, UBS Securities LLC*

Q

Okay. Got it. So just to clarify. So it doesn't get in the way of buybacks, and it's something that you'd opportunistically will actually chip away at for once. And if so, it'll be more the pivot really or takeaway that we should take is that you are pivoting to focus more on the buybacks and preferreds?

Pablo G. Mercado*Executive Vice President & Chief Financial Officer, EnLink Midstream LLC*

A

Yeah. And it's not just buybacks, but we also mentioned distribution increases. That's something we'll be reviewing with our board over the next couple of quarters.

Shneur Z. Gershuni*Analyst, UBS Securities LLC*

Q

Okay. Perfect. I really appreciate the color today. Thank you very much and stay safe.

Barry E. Davis*Chairman & Chief Executive Officer, EnLink Midstream LLC*

A

Take care.

Operator: [Operator Instructions] Our next question comes from [ph] Vinay Chitteti (00:24:39) with JPMorgan. Please go ahead.

Q

Hi. Good morning. I just wanted to follow up on your Carbon Solutions Group [indiscernible] (00:24:50) you did discuss current 45Q tax rate is sufficient to take – to make low-hanging fruit projects viable. So just maybe if you could expand any further on potential opportunity size there, and what is the timeline we are looking at?

Benjamin D. Lamb*Executive Vice President & Chief Operating Officer, EnLink Midstream LLC*

A

Hey, [ph] Vinay (00:25:07) it's Ben Lamb. I'll start with the second question first. The size of the opportunity you can think of it is not much different than the size of the gas market today. And specifically, in the Mississippi River Corridor, where our infrastructure is the most robust, there's between 80 million and 100 million metric tonnes a year of total CO2 emissions. So, the ultimate addressable market is vast.

Now, the first part of your question, is it economic today with the current 45Q tax structure? Some carbon sources are economic today with the 45Q tax structure, certainly not the entire market. But enough of the market that we believe we have the opportunity to build a scale business with the 45Q tax credit that's in place today. We also think that we've seen a lot of bipartisan support in Washington for CCUS, and for expanding the scope of 45Q. And as that happens, more and more of those 80 million to 100 million metric tonnes a year will become – will become economic over time.

And I want to emphasize that we have the ability to take advantage of this opportunity repurposing some of the assets that we have in the ground. And that's because we have assets of sufficient diameter that we can operate at the pressures required to move CO2 efficiently and move at quantity of material, and move at distance that we think fits the market as we expect it to develop in the next few years.

Q

Got it. Ben, maybe just trying to understand on the guidance here, so the commodity [indiscernible] (00:27:05) including your guidance is still kind of lower compared towards where the current strip is. Maybe if you could share any details on what size the upper end of the guidance and any other items which we should keep in mind other than the seasonality which you already mentioned.

Benjamin D. Lamb*Executive Vice President & Chief Operating Officer, EnLink Midstream LLC*

A

Yeah, [ph] Vinay (00:27:25). So, good question. We did outline the commodity prices that we used for the full guidance range update that we gave in June. Obviously, prices have been stronger particularly on the NGL and natural gas side. And so, that is one of the contributors to the commentary that we gave on today's call, which is that we expect to be in the upper end of the range that we previously provided.

Q

Got it. That's it for me, guys. Thank you.

Barry E. Davis*Chairman & Chief Executive Officer, EnLink Midstream LLC*

A

Thank you, [ph] Vinay (00:28:00).

Operator: Our next question comes from T.J. Schulz with RBC Capital Markets. Please go ahead.

T.J. Schultz

Analyst, RBC Capital Markets LLC

Q

Hey, everybody. Good morning. My first question is just for the Midland. You talked about looking into 2022 for other capital light expansions. Does that – as you look at ways to expand that capacity, does that consider moving another plant? And then what's the current outlook with Thunderbird? Thanks.

Barry E. Davis

Chairman & Chief Executive Officer, EnLink Midstream LLC

A

Hey, T.J. Yeah. So, you're right. With the capacity that we're adding with War Horse, initially \$80 million a day here in the near term and then another \$15 million by the end of the year, we'll be up in the [ph] 660s (00:28:54) of capacity. But we expect that we will start to fill that fairly quickly in the first half of next year. And so, we are already looking at efficient ways to increase processing capacity. That could include offloading to others, because there are others who are constructing facilities in the Midland Basin today, newbuild facilities. It could include moving another plant, as you say. And we do have a couple of candidates in our portfolio that could be available for that. It could include something like a joint venture with one of our Midland neighbors to make sure that we fully utilized the capacity that someone builds.

Another one that's come up recently when we acquired Amarillo Rattler, we acquired a small refrigeration plant that today can only process about 20 million cubic feet a day with relatively low recoveries. As we've done more work around that facility, we think that facility may be expandable, and we may be able to significantly increase the recoveries in that facility such that we might have a smaller version of War Horse on our hands in terms of the efficiency with which we can add some processing capacity. So all of those options will be on the table with a focus on these capital light alternatives.

T.J. Schultz

Analyst, RBC Capital Markets LLC

Q

Okay. Makes sense. And then just taking questions on the stack. So certainly a conducive commodity environment, and if that persists, does your guide for this year I mean kind of outlook into 2022, does that assume that these seven rigs persist or is getting to the higher end of the guide [indiscernible] (00:30:50) consider more rigs? Just trying to understand maybe the appetite from some of the private producers to consider and/or continue to increase activity from current levels just given where the commodity is now. Thanks.

Barry E. Davis

Chairman & Chief Executive Officer, EnLink Midstream LLC

A

Yes. T.J., we don't – we don't even need the seven rigs to persist to get to the mid-single digit decline in 2022. That – what we're seeing right now is a very nice helpful tailwind. And if the seven – if a rig count of seven sticks, so to speak, then we would – we would see upside from what we're talking about today.

T.J. Schultz

Analyst, RBC Capital Markets LLC

Q

Okay. Great. Thanks.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Barry Davis for any closing comment.

Barry E. Davis

Chairman & Chief Executive Officer, EnLink Midstream LLC

Thank you, Sarah, for facilitating our call this morning. And thank you everyone for being on the call today and for your support as always. We appreciate your continued interest and investment in EnLink and we hope you have a great day. Thank you.

Operator: The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.

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