

Kaleyra, Inc. AMEX:KLR

FQ3 2020 Earnings Call Transcripts

Monday, November 09, 2020 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2020-			-FQ4 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS (GAAP)	(0.10)	(0.19)	NM	(0.04)	(0.80)	0.14
Revenue (mm)	36.52	38.27	▲ 4.79	41.35	142.38	187.71

Currency: USD

Consensus as of Oct-19-2020 1:48 PM GMT

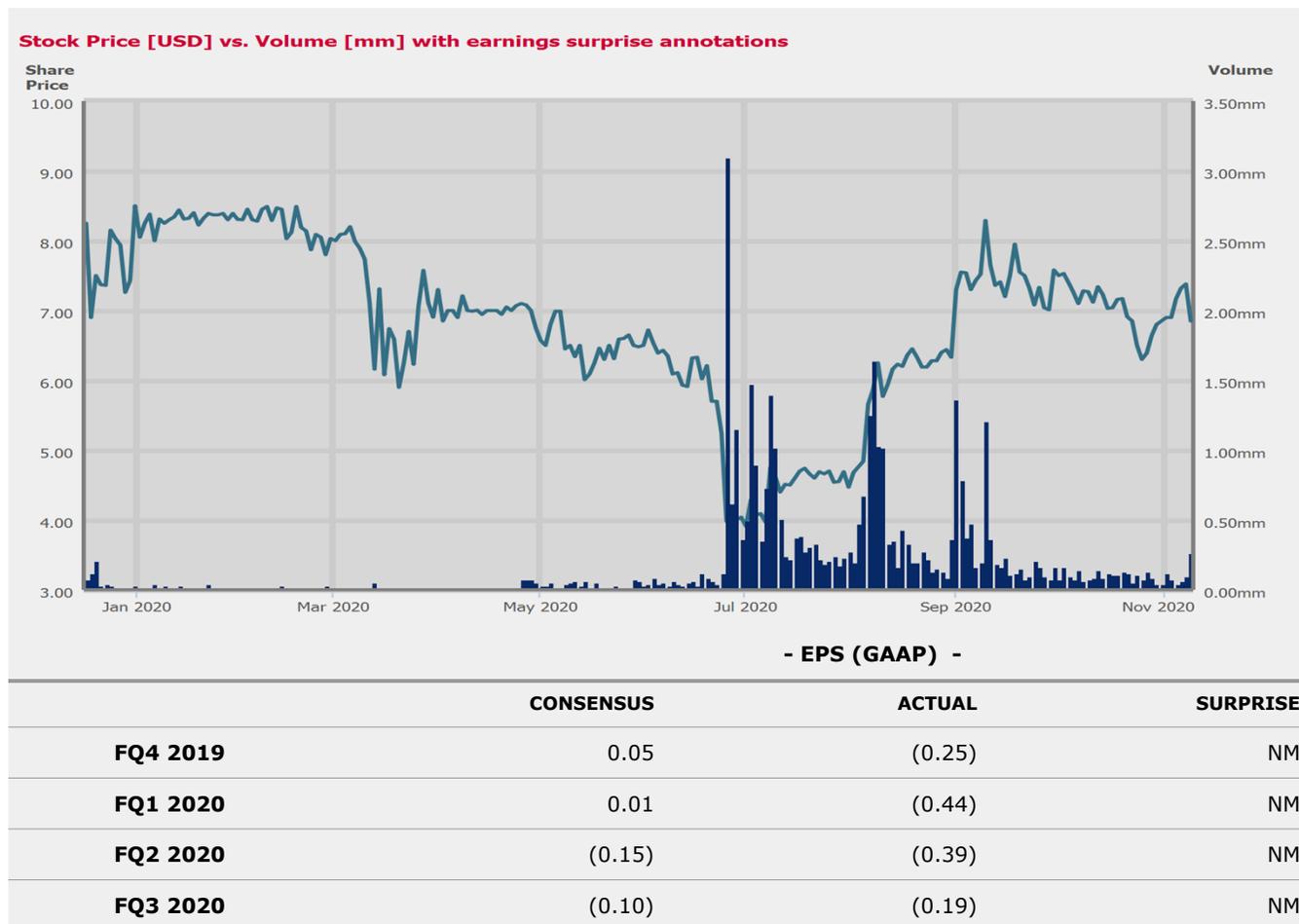


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Call Participants

EXECUTIVES

Dario Calogero
CEO, President & Director

Giacomo Dall'Aglio
*CFO, Executive VP & Principal
Accounting Officer*

ANALYSTS

Allen Robert Klee
*National Securities Corporation,
Research Division*

George Frederick Sutton
*Craig-Hallum Capital Group LLC,
Research Division*

Michael James Latimore
*Northland Capital Markets,
Research Division*

Timothy Kelly Horan
*Oppenheimer & Co. Inc., Research
Division*

ATTENDEES

Marc P. Griffin
ICR, LLC

Presentation

Operator

Greetings. Welcome to Kaleyra's Third Quarter 2020 Results Call. A brief question-and-answer session will follow the formal presentation. [Operator Instructions]. Please note, this conference is being recorded.

At this time, it's now my pleasure to introduce Marc Griffin.

Marc P. Griffin

ICR, LLC

Thank you. Good morning, and welcome to Kaleyra's Third Quarter Fiscal 2020 Conference Call. Kaleyra released unaudited financial results for the third quarter ended September 30, 2020 earlier this morning. The press release, as well as a replay of today's call, can be found on the investors section of the company's website at investors.kaleyra.com. Joining us for today's call with the management is the CEO and founder, as well as the company's chief financial officer. Management is doing this call from different locations today. So please bear with us as we transition between speakers and address your questions.

During today's call, management will be making forward-looking statements. Please refer to the company's SEC filings, including the company's annual report on Form 10-K for a summary of the forward-looking statements and the risks, uncertainties, and other factors that could cause actual results to differ materially from those of our forward-looking statements. Kaleyra cautions investors not to place undue reliance on any forward-looking statements. The company does not undertake and specifically disclaims any obligation to update or revise these statements to reflect new circumstances or unanticipated events as they occur, except as required by law.

Throughout today's press release and our call today, we will refer to adjusted EBITDA. This metric is not determined in accordance with generally accepted accounting principles and therefore is susceptible to varying calculations. A definition, calculation and reconciliation of the financial statements of adjusted EBITDA can be found in the tables in our press release. We believe this non-GAAP measure of Kaleyra's financial results provides useful information regarding certain financial and business trends and our results.

With that, let me turn the call over to Dario. Please go ahead.

Dario Calogero

CEO, President & Director

Thank you, Marc, and thank you to everyone joining us on the call today for our third quarter conference call. As you are all well aware, the global pandemic continues to evolve. And while we believe we are not likely through the worst of it, the residual asset on the global economy are still present. We saw a modest recovery in our 2 largest markets, Italy and India, and an exceptional growth in the U.S., which is now our third largest market.

We reported our highest quarter revenues in Q3 at \$38.3 million, exceeding our guidance of at least 36 million. Most importantly, Q3 revenues was up 23% from the full we experienced in Q2, which demonstrates the strength of the recovery. Q3 revenue was also up 8.3 year-over-year. Economies around the world started to reopen, and we saw volumes recover with month-over-month increases from June through September, and this momentum continued into October.

A main driver in the quarter was the ramping of a large U.S.-based enterprise customer. Other enterprise customers added to the momentum with an improving number of digital payments and transactions, which draw a 19% sequential increase in messages. On the bright side, calls were up 22% year-over-year and more than 120% from Q2. Digital transformation is driving change of organizations around the world, and the pandemic has only accelerated those plan. In our interaction with enterprise customers, their customers are demanding they announce a digital relationship through a variety of new channels like light chat, chatbots, and interactive voice response idea.

We are well equipped to handle this additional demand and our full range of CITA tools will allow us to capitalize on these opportunities and to provide solutions to any communication platform challenges our customers might face during these times. The breadth of our platform in our global, which was highlighted when we were listed as a representative vendor in Gartner's market guide for communication platforms as a service. By their estimation, by 2023, 90% of global enterprises will leverage API enabled CPaaS offering as a strategic IT skill set to enhance their digital competitiveness, up from 20% in 2020.

Our wide range of developers to help customers get most of our expansive platform, particularly our usual builder, which is crucial for the workers without core skills to access the full range of the CPaaS tool set. The scale and the scope of our trusted CPaaS platform in our reputation as a global provider of communication tools is resonating with large intimation of corporations. We are starting to see traction outside of our core market of India and Italy, and we are seeing an increase in our pipeline of opportunities, which include large internet giants, financial services firms, and other Fortune 500 customers.

We are leveraging our position as the most trusted CPaaS provider for banking and financial services in Europe and bringing our expertise and compliance to the United States, where we believe there is a strong demand for our industry-leading security API protocols. As we mentioned on our prior call, we better tested our soft launch of the company's registry service in Q2. As a quick reminder, the campaign registry is the subsidiary of Kaleyra and provide application to person, it's an a 10 digit long call messaging campaign registration services.

The campaign registry collects the who or the brand and campaign service provider. And the what of the use cases, industry segment and additional carrier mandated information for business messaging progress in which plan via IT campaign service provider communicates with end users. The registry is similar to the yellow pages for business messaging services, which enables the anticipation to a consistent participants [indiscernible] in sending messages and what they intended to send in order to support improved service quality and reduce reduction of spam and unwanted messaging to consumers.

We are extremely excited to announce we signed agreements with 2 of the 3 Tier 1 United States mobile carriers in the quarter for this important initiative. The Campaign Registry will look after the problem of a [indiscernible] messages reaching the phones of millions of people every day, helping these carriers by providing an invaluable service to their customers and allowing them to protect them against potential scams and unwanted global text.

We are also pleased to have been selected as a Google partner for Google's introduction of verified calls, which we announced in May. The verified calls feature for Android phones will enable customers to see why an enterprise is calling an individual, along with providing the enterprise brand name, verify calls, on Google's verified SMS, a service where we will verify each message a business sense to its use to confirm it was sent by a specific entity. We are excited that Google has chosen Kaleyra as a key partner in these services, which will expand in that the consumer class in the messages and calls they are receiving.

In summary, we believe that Kaleyra is well positioned to execute on our initiative with our broad product portfolio, global reach, and undeliverable worldwide. We continue to build traction outside of our core markets, including welcoming of the United States, which we see as a key market going forward for Kaleyra.

Let me now turn the call over to Kaleyra's chief financial officer, Giacomo Dall'Aglio, who will review our financials in more details. Giacomo, please take the call.

Giacomo Dall'Aglio

CFO, Executive VP & Principal Accounting Officer

Thanks, Dario. For the third quarter ended September 30, 2020, we reported total revenue of \$38.3 million, making the guidance disclosed in the previous quarter. Q3 revenue was up 23% from Q2, which demonstrate the strength of the recovery and was also up 8.3% year-over-year. The main driver of revenue growth this quarter was the ramping of our first mega enterprise U.S. customers, which leads a geographical mix shift towards the U.S.

In Q3, the U.S. was 20.8% of our revenues, up from 6% in the third quarter of 2019. In the quarter, we processed 6.3 billion messages, in line with the prior year period, but up 19% on a sequential basis. We connected 1.1 billion voice call in the quarter, up 22% year-over-year and up more than 120% from Q2. Gross margin was 19.6% in the third quarter of 2020 and significant improvement compared to the 14% of Q2 and broadly in line with 19.8% in the third quarter of 2019. The main drivers were the reopening of economies, which led to an increase in the higher-margin premium service and voice calls.

Operating expenses were \$12.1 million in Q3 2020 compared with 5.6 million in Q3 2019. These operating expenses include 5.2 million stock-based compensation, \$900,000 of transaction and one-off costs and \$700,000 pertaining to the public company compliance, which did not have in Q3 2019. Excluding these costs, operating expenses would have an increase by 1.1 million compared with the adjusted operating expenses of 4.2 million in the third quarter of 2019, mainly driven by significant investment made human capital.

Losses from operations was \$4.6 million for the third quarter of 2020 and includes 5.2 million of stock-based compensation, 900,000 of transaction and one-off cost and 700,000 of public company cost, as I just mentioned. This compares with income from operation of 1.4 million in the third quarter of 2019. Net loss was \$5.3 million or \$0.19 per share for the third quarter of 2020. A 35% improvement when compared to Q2 net loss of 8.1 million. This quarter net loss can be compared to a net income of \$812,000 or \$0.08 per share for the third quarter of 2019 when the company was the driver.

Adjusted EBITDA comparable with the previous year EUR 2.8 million in the first quarter of 2020 and include approximately 700,000 of costs incurred as a public company that we were [indiscernible] in the third quarter of 2019. Without adjusting for those costs, adjusted EBITDA would have been 2.2 million and compared to 3.5 million in third quarter of 2019. The decline in DEBT/EBITDA is attributed to the increased investments that have been made to take advantage of the growth opportunity with [indiscernible].

Cash used in operating activities was 9.6 million in third quarter 2020, mainly due to the working capital changes compared with the cash provided of \$2.6 million in the third quarter last year. Cash and cash equivalents were 31.5 million as of September 30, 2020. This provision is after paying mainly to restricted cash of 20.9 million. The remaining obligation under the forward share purchase agreement and compared with a \$37 million in cash, cash equivalents, and [indiscernible] of December 31, 2019.

Now, I'd like to expand our call regarding our financial outlook. We are raising our annual revenue guidance to be in the range of \$144.6 to 145.6 million, up 12% at the midpoint of the range. For Q4, total revenue is expected to be in the range of 41.5 to 42.5 million, absent an acceleration wave of COVID cases and shutdowns. Thank you for the time for joining the call. And now we are happy to receive your questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Mike Latimore with Northland Capital.

Michael James Latimore

Northland Capital Markets, Research Division

Congratulations. Great rebound in this quarter here. I guess, Dario or Giacomo, as you look to the fourth quarter, you've given solid sequential growth for the fourth quarter. What would be some of the main drivers that you're looking at to reset number in the fourth quarter?

Dario Calogero

CEO, President & Director

Thank you, Mike. This is Dario. The driver of growth is increasing volume in general. We are experiencing increasing volume in all of our segments, and we also see the increase in our volumes in products with analogous margin like voice or [indiscernible] where we are doing pretty much. We have tensing a very significant increase in volume in India. And also, there will be the initial phase of the launch of Kaleyra Cloud that will start in Q4 and will proceed over 2021. Giacomo, you want to add anything?

Giacomo Dall'Aglio

CFO, Executive VP & Principal Accounting Officer

Well also, the Q3 number shows the high increase in the recovery of the economies after the lockdown in the spring. So also the premium service in Italy is continuing to increase in volume and revenues.

Michael James Latimore

Northland Capital Markets, Research Division

Great. And I guess, you talked about, I think, 120% increase in voice volumes, I believe, in the third quarter. I guess, as that continues to grow in the fourth quarter, should that further help gross margin?

Dario Calogero

CEO, President & Director

Yes.

Giacomo Dall'Aglio

CFO, Executive VP & Principal Accounting Officer

Yes is.

Dario Calogero

CEO, President & Director

Go ahead, Giacomo. The answer is yes.

Michael James Latimore

Northland Capital Markets, Research Division

And then I guess just last, obviously, there's been a lot of headlines about just potentially more restrictions in Europe and Italy. How do you think about that as it relates to your kind of volumes in Italy in the fourth quarter?

Dario Calogero

CEO, President & Director

Well, the restrictions that the government are putting in place, in general, are very selective. They are trying to contain the spread of virus in the regions where the numbers are [indiscernible]. So at the

moment, in Italy, for instance, if you take Italy, we have only 3 regions out of '20 where the so-called red zone. My expectation -- our expectation is that the government will keep on doing -- taking similar decisions not to squeeze to match the societies and the economies because very simply, any developed country can't afford another economic downturn, like the one that we experienced in the spring.

Said that, but the pandemic is a strange animal. So nobody exactly knows what's going on. But so far, so good, I would say, if I look at the numbers in October and the first days of November.

Let me say we are the only one thing there, Mike, also. In general, what we experience is now traction in the acceleration of the digital transformation in multiple customers and multiple industries. One thing that is very interesting is that the analysis of Gartner is saying that by 2023, 90% of the companies of the enterprises will be connected with CPaaS. That's their expectation. At the moment, only 20% of the enterprises are connected.

So let me say, there is still very much room for growth for communication platform as a service company. But we keep on evolving on product, technology, and services, but believe the strong demand in is very important.

Operator

Next question comes from the line of Tim Horan with Oppenheimer.

Timothy Kelly Horan

Oppenheimer & Co. Inc., Research Division

Could you give a little bit more color on Campaign Registry? Maybe just how do the carriers set the quality of what's going on and can they monetize it? And when will it really ramp up?

Dario Calogero

CEO, President & Director

Thank you, Tim. This is Dario. So companies, it's a very complex takeoff, made also more complicated by the coronavirus itself. We have put on the contract -- we have put under contract. We still measure Tier 1 mobile metric operators in the U.S. and discussing with our others, not only in the U.S. but also in other geographies in the Americas. And this is good.

I do not expect significant revenues coming in 2020 in the range of 200,000 maximum because still, it's like testing and validation of the overall process, which is a complex process because go through the operators, ourselves, the operators again, the campaign service providers, and the enterprises. So it's not something that you can be any turn around overnight. But it's proceeding well, and it's also very promising, I would say.

Timothy Kelly Horan

Oppenheimer & Co. Inc., Research Division

And where are you with U.S.-based customers? And I guess, maybe a little bit more color on what really drove the U.S. and where are we in that growth process? I guess, can this growth continue in the U.S.?

Dario Calogero

CEO, President & Director

Our growth in the U.S. is mainly explained by very, very large U.S. accounts, which are rightly traffic towards multiple destinations worldwide. And we -- basically, we deliver this traffic to the geographies where we are very well penetrated, as you say, where we are the best of pad.

So what's happening is that most of the big digital giants and the companies that you can speak of the top 10 players, they are basically the ABEL players, which deliver strong customer authentication and senior services worldwide, not only on the U.S. domestic market. And we are one of the Profire partners for the international traffic. So this explain the highest part of the growth.

The other thing that it's important to let me say, highlight is that Kaleyra is almost one and now that it's a public company in the U.S. and this is validating in the vendor rating. Kaleyra is a trustworthy partner, multiple Fortune 500 companies in the U.S. and this is obviously helping in penetrating in the U.S. market, where we particularly work with very large accounts at the moment.

Timothy Kelly Horan

Oppenheimer & Co. Inc., Research Division

And those very, very large accounts that are ramping up, where are you in the process? Do you think you have like 10% of the potential traffic you can get, 50%? Just any kind of rough idea where we are in that adoption process.

Dario Calogero

CEO, President & Director

No, we do not make any assessment on the market share that we can win in the U.S. domestic market. At the moment, we are a niche player, which is working selectively with very large accounts, willing to deliver traffic internationally. So at the moment, we do not compete against the U.S. and Canada and CPaaS provider working in the United States, domestic enterprise market. I can't make any disclosure.

Timothy Kelly Horan

Oppenheimer & Co. Inc., Research Division

I understand the U.S., but where -- I guess the question is, where are you in the process of delivering their international traffic? Are you still in the early innings? Or have you kind of ramped up that you're carrying a lot of their traffic?

Dario Calogero

CEO, President & Director

No. Yes, we are still very, very early at the very beginning of the process and with huge potential. If you see the overall market as we estimated the various market any in the range between 60 and \$90 billion. And we are in between 140 million and 150 million and very, very, very lean market share, high growth company, great growth opportunities.

Operator

Next question comes from the line of George Sutton with Craig-Hallum.

George Frederick Sutton

Craig-Hallum Capital Group LLC, Research Division

Dario, I wonder if you first could talk outside of the -- you obviously talked about verify, you talked about Campaign Registry. I wondered if you could talk about any other developing use cases that you're particularly excited about and seeing traction with.

Dario Calogero

CEO, President & Director

Well, there are several things that we are very, very excited. The thing which is providing more traction now in terms of revenue growth, it's voice. We see voice services becoming kind of the flavor of the year, I would say, in 2020.

Another thing that we are very excited about is video. We have been working in the labs on video solution using a web RTC as a protocol.

And this is potentially -- can find application in multiple use cases, both in banking, financial services, processes like KYC, for instance, where you can have the video validation of the user to the issuance where you can have the client process settled directly on the online real-time at the moment of the accident people can have for simple situations, which are ranking the highest number of cadence, a fast settlement of the plan. And this is very exciting.

And also, we are pretty much bullish about new channels in the omnichannel platform. [Indiscernible] is going fairly well. It's ramping up in volume and in revenues. And now we have this Google partnership, which is good because Google is unveiling a number of products and services which are aimed at the annual users that still account for more than 1/2 of the smartphone users worldwide that are fitting very, very well in the traffic suit of Kaleyra. So this is like verified SMS, verified calls are very, very well sitting with our product portfolio.

George Frederick Sutton

Craig-Hallum Capital Group LLC, Research Division

Super. We are getting particularly good feedback channel check wise on your flow builder. I wondered if you could just walk through what that's doing for you in terms of opportunities.

Dario Calogero

CEO, President & Director

Well, flow builder is an interesting feature of Kaleyra Cloud platform because it's addressing the final users, not the IT or ICT guys that have to implement an application using API. So it's like a self-service content that anyone can test and trial because if you go on the website at Kaleyra -- www.kaleyra.com and you can open an account and have like a free credit to test it.

And the idea is that anybody with no technical skills would be available -- would be able to use the service using omnichannel, multichannel, SMS, whatnot, voice for the beginning, but we will have more channel going forward. It can be done in service, test and trial the servicing and then deploy. And this is competing because it's not addressing developers or ICT department in enterprises. It's addressing directly the, let me say, the business manager who are designing the process -- processes like marketing or customer relationship management, just to give you an example, without any involvement of the IT.

George Frederick Sutton

Craig-Hallum Capital Group LLC, Research Division

Got you. Again, we hear good things.

Operator

The next question is from the line of Allen Klee with National Securities.

Allen Robert Klee

National Securities Corporation, Research Division

Yes. Could you give us a little commentary on how you're thinking about India and potential growth prospects there?

Dario Calogero

CEO, President & Director

Yes, sure. We didn't touch on the EDA. It's still one of the -- in general, Asia Pacific and India within Asia Pacific is one of the highest growth market in the world. In terms of population, Asia Pacific accounts for 60% of the worldwide population. The fact is it remains in India and Indonesia, in multiple -- in Vietnam, Philippines is the growth of the real economy, which is very, very strong, much stronger than in Western countries.

So India -- the growth has been over the last few years, around 6.5%. And when you have a country of \$1 million and 300 million inhabitants, where at least 1/2 of the population have, let me say, a level of lifestyle and of, let me say, spending capabilities in line with the European ones. This is, per se, it's a very huge market.

So we will keep on investing. We are hiring very much in India. We keep on investing. We will keep on having our IT lab and hub in Bangalore. We have commercial offices in 7 locations in India. And we keep on seeing a significant growth in the revenues. In fact, we have appointed Mr. Anika Jain as chief revenue

officer worldwide. YFP was adding the business in India. And so we will manage from -- ran the operation worldwide, including the Americas, and we will keep on Fagron in India as well.

Allen Robert Klee

National Securities Corporation, Research Division

And then can you give us an idea of what the diluted share count would be for next quarter?

Dario Calogero

CEO, President & Director

Sure. Giacomo can address this.

Giacomo Dall'Aglio

CFO, Executive VP & Principal Accounting Officer

Yes. So at the end of Q3, the share count was about 28.5 billion. As of now, the share outstanding are 29.3 million due to the conversion -- partial conversion of some warranty shares happened at the beginning of October. And we expect to have 30.2 million outstanding shares by the end of the year.

Allen Robert Klee

National Securities Corporation, Research Division

And then the working capital changes during the quarter, could you -- it looks like it was the accounts receivable and accounts payables. Could you talk about what was behind that? And do you view that as a timing issue? Or how do we think about that?

Dario Calogero

CEO, President & Director

Yes. It didn't change very much on the account receivables that we are in line in terms of dollars at the end of the year. But we clean up the accounts payable. So there is a change in net working capital of about 10 million that we would like to clean up our balance sheet as much as possible. So we accelerate our payment policy as we promised after the capital increase. So we paid the [indiscernible] agreement. We paid the note and also we paid a certain amount of account payable.

Allen Robert Klee

National Securities Corporation, Research Division

And then my last question is related to k-lab where you're going after financial customers in the U.S. How is your progress there going?

Dario Calogero

CEO, President & Director

Well, k-lab is working closely with a very large financial services brand, and is now focusing more on Latin America, in Caribbean, rather than the U.S. domestic. Even though being based in the U.S., the team, partially in San Francisco and partially in New York, we have a multiple interaction with potential large financial services customers in the U.S., especially issuer of credit card, debit card, and big banks.

It's an activity as I explained multiple times during the calls with the analysts. It's a typical account development activity on very large accounts you do not really get through overnight. It takes time. It's building relationship and building relationship in general last to multiple years. If you take the average of the banking customer in Kaleyra and been with Kaleyra for more than 10 years, some of them for more than 50 years. Maybe to win 1 of this customer, it takes twelve months.

Also because in general, you have to substitute another vendor. And that the other vendor contract is established. So before you get EU, will make a parallel, you perform better. It takes time. But we are -- we keep on investing. We are also hiring within the k-lab team. We will have another addition later this month.

And we think that it's a good move because we think that the value nature of Kaleyra is to do the trusted CPaaS and the banking and financial services institution made trustable user and partners with a very strong knowledge and capability and expertise in the vertical.

Operator

Thank you. This will conclude today's question-and-answer session. I will now hand the floor back to Dario Calogero for closing remarks.

Dario Calogero

CEO, President & Director

Thank you, operator, and thank you all for joining us for today's call.

Operator

Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation. Have a wonderful day.

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