

AT&T Inc. NYSE:T

M&A Call

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Gregory Bradford Williams
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James Edward Schneider
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Presentation

Operator

Thank you for standing by. My name is Tina, and I will be your conference operator today. At this time, I would like to welcome everyone to the Lumen Forward Conference Call. [Operator Instructions] Thank you.

I would now like to turn the conference over to Jim Breen, Senior Vice President of Investor Relations. You may begin.

Jim Breen

Good afternoon, everyone, and thank you for joining Lumen Technologies on today's call. On the call today are Kate Johnson, President and Chief Executive Officer; and Chris Stansbury, Executive Vice President and Chief Financial Officer.

Before we begin, this conference call may include forward-looking statements subject to certain risks and uncertainties. All forward-looking statements should be considered in conjunction with the cautionary statements and the risk factors in our SEC filings.

With that, I'll turn the call over to Chris.

Christopher David Stansbury *Executive VP & CFO*

Thanks, Jim. Good afternoon, everybody. We're delighted to announce that AT&T has purchased our Mass Markets fiber-to-the-home business for \$5.75 billion in cash. It gives us financial freedom and delivers material economic value to our investors. It allows us to focus where we have a right to win in the enterprise market, which has a TAM of more than \$80 billion and segments within that, that are growing at great rates. This deal allows us to do what customers need in a multi-cloud AI-first world, which is to innovate and reimagine networking.

So let's start with the transaction overview and how it gives us financial freedom. Selling the majority of our Quantum Fiber -- consumer fiber-to-the-home business to AT&T for \$5.75 billion in cash, as I mentioned earlier. It gives us the financial freedom to double down on where we have the right to win, leveraging our expertise alongside our massive network scale to power the digital future for enterprise. Lumen is retaining the network infrastructure that's critical to our future, and we'll get into that a little bit more later.

AT&T is going to acquire the business in 11 states, approximately 4 million enablements, and nearly 1 million customers. We expect the deal to close in the first half of 2026. And I think what's really important here is that this recognizes the tremendous value that our team has created in building a leading consumer fiber business, and it provides us an attractive monetization.

Now the deal is really unique in its scope of what we're selling and what we're retaining. We're retaining the network infrastructure that's critical to our future, and that includes our national, regional, state and metro level fiber networks as well as our enterprise and wholesale relationships in all markets and our central offices and associated real estate. We also retain the copper consumer business.

We value the financial contribution of the retained assets at approximately \$6 billion or roughly \$1,400 per enablement. So when you combine that with the proceeds from the sale, we're looking at about \$11.75 billion or about \$2,900 per enablement, which is in line with recent transactions in the consumer fiber segment.

The transaction is one of its kind, and it gives Lumen the financial freedom to invest and innovate in the enterprise connectivity and services market where we have a right to win. It delivers significant financial benefits that will enable us to delever, simplify and strengthen our balance sheet while also reducing the capital intensity of our business and enhancing cash flow.

As of first quarter, we estimate the consumer fiber assets being sold would generate over \$750 million in annual revenue. We will use after-tax proceeds along with cash on hand to reduce our debt by approximately \$4.8 billion at close. And we estimate annual interest expense will reduce by approximately \$300 million after that debt is paid down. And beyond that, our annual CapEx will be reduced by approximately \$1 billion. So annual cash flow positive impacts of about \$1.3 billion after close.

Now based on pro forma 2025 adjusted EBITDA guidance, we estimate net debt to adjusted EBITDA will be reduced from 4.9x to 3.9x, with plans to continue to delever further as we reduce debt and our EBITDA grows. Our overall capital structure will be improved and with reduced debt, we may secure debt ratings upgrades that would further reduce interest payments. We can use

additional cash flow to continue debt reduction, further balance sheet improvements and invest in growth and innovation. And our pathway to positive EBITDA growth year-over-year in 2026 remains firmly on track.

And with that, I'll hand it over to Kate.

Kathleen E. Johnson
President & CEO

Thanks, Chris, and good afternoon, everybody.

Today's announcement marks an important step forward in Lumen's transformation from a legacy telecom to focusing on what enterprises need, where the world is going, and where we can lead. Two powerful forces shaped this transaction. The first, AI has really emerged as the critical -- mission-critical technology for enterprise. And secondly, the demand curves for consumer wireless and fiber are rapidly converging. So we're making a smart and bold choice to double down where we have a right to win. We're reinventing Lumen to power the digital future for enterprise. The transaction is important because it gives us financial freedom, as Chris said, while allowing us to focus on our winning market position as the [indiscernible] for AI.

Lumen is uniquely positioned to deliver new, much-needed value to enterprise customers. We'll continue the massive expansion of our physical network, scaling to 47 million miles by 2028, as I shared on our last earnings call, giving us unmatched reach and proximity to businesses everywhere.

We'll scale our digital platform to continue to provide quick, secure and effortless customer experiences with a cloud consumption style-based model. And we've heard loudly and clearly from our customers. They're not asking us why we're disrupting telecom in this way. They're simply asking us to go faster. So if you combine our physical and digital assets, we're able to provide unique high-value network architectures for customers with better economics, better performance, more intelligence and higher levels of security. It's disruption with value creation.

We're going to continue to innovate to make it easier for enterprises to thrive in a multi-cloud AI-first world. And we have a once-in-a-generation opportunity to build a much-needed digital enterprise networking company. We got the right assets, the right vision, the right team at exactly the right time.

Just a quick note. I showed the slide last earnings call. This is what it looks like when you're disrupting telecom. We're delivering cloud economics so that you're not beholden to legacy point-to-point solutions anymore in the world of networking. We build one-to-many architectures that can be managed remotely, allowing for scaled revenue growth at a reduced marginal cost.

And just to wrap it up, and then we'll take your questions. It's a new day for Lumen. It's a new day for enterprise customers. We're excited about the opportunity to accelerate our transformation, capturing a once-in-a-generation opportunity to build the leading digital networking company that seamlessly enables enterprises to thrive in a multi-cloud AI-first world, and our future has never been brighter.

And with that, I'd love to hear if you have any questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Michael Rollins with Citi.

Michael Ian Rollins
Citigroup Inc., Research Division

Congratulations. Two questions, if I could. So first, I'm curious if you could share with us in terms of operationally and financially, what's left in the LC that underpins the referenced \$6 billion of value and maybe even free cash flow, so like revenue, EBITDA, free cash flow, what's left for that business?

And then secondly, just curious if you could describe if there's any commercial service agreements or temporary service agreements or transition that we should be mindful of and how that can affect Lumen, both operationally and financially going forward?

Kathleen E. Johnson
President & CEO

Chris, I'll start and just give a little bit of an overview because I think it's strategically important. And then if you could help me with unpacking any of the numbers that you feel comfortable sharing.

So basically, Mike, thanks for the questions, as always. It's important to understand, we retain assets that are strategically important to our go-forward mission. So we've sold off the fiber. There's the elegant chart that we shared comparing this transaction with others. We're keeping the copper for consumer, enterprise and wholesale. And where that becomes incredibly important, it's not just the fact that our enterprise copper installed base gives us trampoline basically to help bring customers forward and migrate them to these new technologies, which they're in desperate need of. But also those assets give us the ability to provide new disruptive architectures like what we talked about on the last earnings call, direct fiber access and of course, the on-ramps with the cloud company so that we can bypass the old constructs of cross connects.

So it's extremely intentional, not the least of which we get an enormous amount of cash from those businesses, as you know, and can use our newfound financial freedom to spend those capital dollars as we wish, whether it's repaying debt, investing in continued streamline of operations or acquiring net new revenue streams. So we're really happy with how this has played out, it couldn't be any more strategic. And frankly, I think we threaded the needle in this really powerful way value-wise.

But Chris, do you want to share some more about the numbers?

Christopher David Stansbury
Executive VP & CFO

Sure. So in that \$6 billion, that is a DCF valuation. And it includes, as I said in my comments, really all of the enterprise and wholesale as well as the consumer copper business revenue and EBITDA and cash flow. We haven't disclosed what the revenue and EBITDA and cash flow are on the business side of that. On the consumer side, we've said that we're selling between \$100 million and \$200 million of EBITDA and about \$750 million in revenue if you use first quarter as an estimate. But that's all we disclosed at this point.

Kathleen E. Johnson
President & CEO

And I think you asked about the TSAs. We do have several different commercial agreements with AT&T. We're happy. We're very pleased with the results and I don't see any material impact to current operations. In the end, I think it's going to allow us to accelerate our path to a digital platform across the company that we've been talking about.

Michael Ian Rollins
Citigroup Inc., Research Division

And sorry, and just with those CSA and TSAs that might be associated with the divestiture, is there an incremental financial contribution that can come to Lumen maybe upfront or on an annual basis? Or is that incorporated into the terms of the transaction?

Christopher David Stansbury

Executive VP & CFO

It's incorporated into the terms of the transaction. I mean we -- our goal here is to work aggressively to continue to drive enablements and penetration before we close. And then after we close, we have service agreements that relate to both the build and the operational side for a period of time. But we don't expect that to be lengthy.

Operator

Our next question comes from the line of Sebastiano Petti with JPMorgan.

Our next question is from Batya Levi with UBS.

Batya Levi

UBS Investment Bank, Research Division

Can you provide some color on your strategy for the remaining consumer segment that will sit on the copper network? And maybe if you could remind us how many central offices do you have? And how many do you think will be utilized for the support of the enterprise business and the upgrade of the network that you're thinking about? So could we assume maybe some cost savings on the copper side as well going forward?

Kathleen E. Johnson

President & CEO

A couple of things about the consumer copper business. Number one, as you know, it provides cash flow that helps fuel our transformation. So we're excited about that.

Secondly, the regulatory environment is continuing to become more and more favorable to providing alternative technologies at the end of life for these customers. We see this taking a long time. Many of these customers are in remote locations where they don't have a lot of options. And so we see this as a 7- to 10-year run. And at the end of that, we have this opportunity to sell off the copper as we decommission these networks.

So there's a lot to think about in terms of how to make sure we get the best out of that asset, and we have work underway thinking about all of it. And Chris, I don't know if you have anything to add.

Christopher David Stansbury

Executive VP & CFO

Yes. No, I think that's right. And by the way, the copper mining benefits are not included in that \$6 billion that I spoke of. So that's just an important nuance. But the -- in terms of the number of wire centers, we've got a little over 1,700 wire centers. There will be consolidation of those just naturally as we move through our transformation and the modernization and simplification efforts.

In terms of how many of those locations will have that enterprise connectivity in it, that's TBD as we build out that footprint. But the reality is having those assets and the ability to choose which locations we put equipment into is paramount because, again, latency kills AI and having that access where it helps us reduce that latency is going to be absolutely critical for the strategy.

Operator

Our next question is from Sebastiano Petti with JPMorgan.

Sebastiano Carmine Petti

JPMorgan Chase & Co, Research Division

Can you hear me?

Kathleen E. Johnson

President & CEO

Yes.

Christopher David Stansbury

Executive VP & CFO

Yes.

Sebastiano Carmine Petti*JPMorgan Chase & Co, Research Division*

Okay. Great. I wasn't sure. All right. I just had a question on the debt side, Chris. If you can maybe help us think about so the payment of \$4.2 billion net, you're going to take out about the \$4.8 billion of super priority debt. And so the \$3.9 billion that you're talking about -- 3.9 turns of net debt-to-EBITDA, that's at year-end 2025, correct? So help us think about maybe the glide path from there. I think in the past, you talked about reducing debt by a quarter in terms of some of your -- how you're thinking about pro forma for the business. And thinking about other uses of proceeds, I guess, would you pay down debt? Would that include some repayment of your \$1.2 billion intercompany loan from Level 3 to Lumen?

Christopher David Stansbury*Executive VP & CFO*

Yes. So in terms of the playbook going forward, we have one. I don't want to get into a ton of detail on this call. I think the piece that we've been very public about is, yes, we will pay down the super priority debt first. It's the most restrictive. It's expensive. And by eliminating that, it clears a pathway to us being able to do a lot of things. And so I would say that broadly, you will see us continue to drive towards a more normalized maturity curve. You'll see us driving towards improved ratings and a reduced cost of capital and just broadly a simplified structure.

So with all of that and with the free cash flow benefits, that we generate post close from this transaction, we will see leverage continue to fall, and it will go well below that 3.9. We haven't put a target out there yet, but we clearly have the opportunity to create some more significant deleverage in the years that follow. But we're also going to be looking for the ways that we can invest to drive the innovation that Kate spoke of. This is about disruption. It's about us doing things that no one else is doing, and we're going to be aggressive about that. So it's the balance. But under any circumstance, you will see debt and leverage decline as we drive a pivot to revenue growth.

Sebastiano Carmine Petti*JPMorgan Chase & Co, Research Division*

And just following up on that last point, Chris, in the press release, talked about CapEx coming down by \$1 billion. Does this enable you to go faster on the AI PCF stuff in terms of your construction builds? Or is there more just other factors that kind of limit the cadence by which you can kind of execute against those builds?

Christopher David Stansbury*Executive VP & CFO*

Yes. On PCF specifically, it really is about construction cycles right now. The team is doing a great job. Some of our contracts have performance-based criteria in that, and we have started to deliver and started to receive some bonus payments because we're ahead of schedule. But there's -- throwing more at that is not going to drive it faster. And I can assure you that, that question is asked by Kate and I on a daily basis between us at least 2 dozen times.

Operator

Our next question is from the line of Jim Schneider with Goldman Sachs.

James Edward Schneider*Goldman Sachs Group, Inc., Research Division*

Just a quick one, if I may. You talked about the transaction being free cash flow positive to the tune of about \$1.3 billion. Can you maybe just talk to the extent to which you may consider reinvesting some of the benefits of that cash flow either from an OpEx or CapEx perspective and other elements of the business and what the opportunities on that front might be?

Christopher David Stansbury*Executive VP & CFO*

Yes. That's definitely something that we look at daily, Jim. I mean, as we talked about when we did the Q1 call, the year is off to a good start. We've got to see how that continues to form over the balance of the year. But when we look at that and we look at what the future holds with the improved cash flow here, I think it just gives us enormous flexibility.

I mean, let's just pause for a second. Think back to 2 years ago and the questions that we were all asking about Lumen and now think about the questions we're asking in terms of really the opportunities that we have before us. We don't get to just choose one item off the menu now. We've got lots of choices.

So again, in that, though, you've got the commitment from us that we will continue to delever. But absolutely, if we see an opportunity to do something that propels our growth trajectory or drives additional disruption, we're going to lean into it. But we haven't got that all figured out yet, obviously. So we'll share more at our Analyst Day in September. And obviously, we'll continue to be open and transparent as we have as we move through this transformation.

Kathleen E. Johnson
President & CEO

I think just to add a couple of things to that one. Look, I shared this on the past couple of calls. We've got three major priorities: driving operational excellence, building the backbone for AI and cloudifying telco. And we've got programs under each of those. This newfound financial freedom, in some cases, allows us to go faster. In other cases, you can only go so fast as you can dig the holes from a construction perspective, as Chris just shared. With that flexibility, I think what's really new here, you guys is this notion of we have radical clarity from a strategic perspective, and we're now able to really start to measure the return on dollars invested with great precision against something that really matters. And so we're excited about that.

Operator

Our next question comes from the line of Jonathan Chaplin with New Street.

Jonathan Chaplin
New Street Research LLP

[indiscernible] for the foreseeable future and use some of the infrastructure that sits behind the central offices, are there sort of NPV positive payments to you for access to that? And if you could quantify that for us, it would be helpful.

And then relatedly, does AT&T have the right to use your rights of way and your existing copper infrastructure to continue upgrading copper to fiber out of the central offices that they're buying fiber in? And if they do, are there payments to you for any of that benefit?

Christopher David Stansbury
Executive VP & CFO

We miss the beginning of that question.

Kathleen E. Johnson
President & CEO

I missed the first half of the question, yes.

Christopher David Stansbury
Executive VP & CFO

Yes.

Jonathan Chaplin
New Street Research LLP

Just for -- does AT&T pay you to access your central offices and the infrastructure behind the central offices? And is that NPV positive? And then do they pay you to use your rights of way when they upgrade more copper to fiber in those markets?

Kathleen E. Johnson
President & CEO

Chris, do you want to take that?

Christopher David Stansbury
Executive VP & CFO

Yes. Sure, yes. So the -- we have had for a number of years, obviously, wholesale relationships with all the carriers as they have with us. And so access to our network to help with transport would really be a business as usual kind of situation, and we have mechanisms in place that as AT&T scales the business that we can meet those demands.

As it relates to the copper, I mean, again, we're not talking about a copper footprint that remains today that will likely be overbuilt with fiber. There's very little remaining copper footprint in the metros where fiber builds are going to take place.

So what we have said is have at it because as soon as you convert those customers to fiber, we can turn those networks off and drive a lot of cost reduction. So no, there's no payments for overbuilding the copper footprint. But again, and I want to emphasize this, the reason we see a long tail on this business is a lot of it sits in very remote locations like the Top of the Rockies where it's very unlikely that fiber will ever be laid.

Operator

Our next question comes from the line of Nick Del Deo with MoffettNathanson.

Nicholas Ralph Del Deo
MoffettNathanson LLC

Chris, I think you noted \$100 million to \$200 million in EBITDA. Anything we should be aware of from a cost allocation perspective or stranded costs or anything like that as we think about what this means for the model? And does that EBITDA figure include the benefit of any like wholesale transport that you might get from AT&T post deal to serve these assets?

Christopher David Stansbury
Executive VP & CFO

Yes. So the EBITDA is what what's in the business today. And any wholesale would just be, again, per normal arrangements that we have with them. I don't think we should be modeling anything of significance for that. Because ultimately, AT&T is going to secure their own right-of-way agreements as they go forward.

So yes, there's nothing really there. As it relates to stranded costs, I mean, obviously, the biggest bucket of stranded cost is going to be corporate. That doesn't change because of this transaction. Those things change through activities like our modernization and simplification, which, as we said, is off to a great start.

Nicholas Ralph Del Deo
MoffettNathanson LLC

Okay. Okay. And then just to clarify something about the number of locations, right? So you're selling 4 million. It sounds like you're keeping a handful and you're building some over the next year. So it seems to be several hundred thousand that are outside of the scope of the deal. Are you just hanging on to those? Or are there [indiscernible] deal and it's kind of rounding that accounts for variance?

Christopher David Stansbury
Executive VP & CFO

Yes. So for clarity, the enablements that are being built this year, transfer as part of the deal. And then we will, until AT&T gets up to scale, we will continue to build next year, but we will not be paying for those enablements, they will. So we're not going to slow this great engine that we've built that's driving some really good enablements.

So the little bit that remains from the perimeter today is really, again, more remote locations that aren't part of the go-forward and therefore, we're eliminating from the perimeter. So we'll continue to care for those customers just as we do for the copper customers. But at the same time, we'll look for opportunities to monetize that through other transactions.

Nicholas Ralph Del Deo
MoffettNathanson LLC

Okay. Okay. That's helpful. So just to be perfectly clear, so the CapEx associated with 2025 enablements you're paying for calendar 2026, you basically get reimbursed by AT&T?

Christopher David Stansbury
Executive VP & CFO

That's right. We maintain the build plan because we've got to do that through the close. That's correct.

Operator

Our next question comes from the line of Greg Williams with TD Cowen.

Gregory Bradford Williams
TD Cowen, Research Division

Great. Just one question. Typically, these deals come with dis-synergies from the enterprise side. But I just want to confirm, it sounds like they would be minimal or even de minimis since you're keeping the central offices in the metro fiber.

Christopher David Stansbury
Executive VP & CFO

Yes, that's right. Financially, it's de minimis. And again, we have an opportunity to drive cost reduction through simplifying our operations, which is the separate initiative that we've talked about to drive \$1 billion of savings -- annual savings by the time we exit 2027. So that's capturing the efficiencies that we can get out of the network. As it relates to the transaction itself, it's got very little impact. It's really about keeping the assets, as Kate outlined in detail so that we can drive our strategy.

Operator

And our final question comes from the line of Frank Louthan with Raymond James.

Frank Garrett Louthan
Raymond James & Associates, Inc., Research Division

So talk to us about how that cash is coming in? Is it just straight cash? I think you mentioned something about some adjustments to working capital. Is there any amount of it that's a CapEx reimbursement?

And then kind of back to Jonathan's question, the sale leaseback on the rights of way. Can you walk us through the mechanics of how they're paying for that and how long that agreement is? And how much of the total consideration is going to that part of the deal?

Christopher David Stansbury
Executive VP & CFO

Yes. We haven't broken the deal value down by its various pieces. The reality is it's part of the sale price, the purchase price. And so we don't -- we haven't ascribed to value that again. I think AT&T will move rapidly to get their own rights of way. And so there's no real reason for us to even, frankly, want to try to benefit from that. This is part of what we built, and we're going to help that business continue to grow until they get their own rights of way. So nothing there. Sorry, Frank, what was the beginning of the question?

Frank Garrett Louthan
Raymond James & Associates, Inc., Research Division

Well, it was more about how the cash was set, the upfront consideration. Is it all cash? Or is some of it counted as CapEx or reimbursement or.

Christopher David Stansbury
Executive VP & CFO

That's all cash for the footprint that will be acquired at closing. So again, we continue with the CapEx investments through this year to continue to drive the enablement target that we have. And the \$5.75 billion is cash due to us at closing. Beyond closing, while we're still driving that build engine, we would be reimbursed for CapEx that goes into those enablements, separate from the \$5.75 billion.

Operator

And I will now turn the call back over to Kate for closing remarks.

Kathleen E. Johnson
President & CEO

So thank you so much, operator, and everyone, thanks for the great questions. We're very excited. It's a day for us that marks a new phase in our transformation. We have financial freedom. We've got the ability to strategically focus on enterprise and accelerate our

innovation to bring new value to customers who need network more than ever to thrive in a multi-cloud AI world. So can't wait to share more at our Investor Day in the fall, and see you all soon. Thank you.

Operator

This concludes today's conference call. You may now disconnect.

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