

07-Jun-2022

# Walmart, Inc. (WMT)

Baird Global Consumer, Technology & Services Conference

## CORPORATE PARTICIPANTS

### Judith McKenna

*President & Chief Executive Officer-Walmart International, Walmart, Inc.*

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## OTHER PARTICIPANTS

### Peter Sloan Benedict

*Analyst, Robert W. Baird & Co., Inc.*

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## MANAGEMENT DISCUSSION SECTION

### Peter Sloan Benedict

*Analyst, Robert W. Baird & Co., Inc.*

Okay. Good. All right. Good morning everyone. Thanks for joining us for our next presentation with Walmart. Again, I'm Peter Benedict, senior retail, consumer products and services analyst at Baird. Really pleased to have Judith McKenna with us. She is President and CEO of Walmart International. She's been in that role since February of 2018. Her prior roles at Walmart have included COO of the Walmart US business, as well as COO and CFO of the Asda business in the UK. I think one of my last in-person trips prior to COVID was actually with you in Asia.

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### Judith McKenna

*President & Chief Executive Officer-Walmart International, Walmart, Inc.*

Yeah. That's right.

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### Peter Sloan Benedict

*Analyst, Robert W. Baird & Co., Inc.*

So, appropriate that we are getting back together again. So, we appreciate you making the trip. Just – before we get going, I want to frame the size and scope of Walmart International for folks because I think it sometimes gets lost on folks just how big this is. 23 countries, four really key countries; Canada, Mexico, India and China. It's \$100 billion revenue business, which is 18% of Walmart in total. It's one of the five largest retailers in the world on its own. It's a digital powerhouse. 18% e-commerce penetration last year. That compares to 12% at Walmart US and around – less than 10% at [ph] Sam's Club (00:01:22). And they did about \$4 billion of segment EBIT, so that's about 15% of Walmart total. So no shortage of things to talk about whenever we have Judith with us.

## QUESTION AND ANSWER SECTION

**Peter Sloan Benedict**

*Analyst, Robert W. Baird & Co., Inc.*

Q

I think – however, I think we're going to kick – we're going to focus on International today, but given events of the morning, it would probably get run out of the room if I didn't address the elephant in the room here. So we're going to talk a little bit about US inventory out of the gate given the news this morning from Target. We spent some time with you guys just last week down in Bentonville.

**Judith McKenna**

*President & Chief Executive Officer-Walmart International, Walmart, Inc.*

A

We did.

**Peter Sloan Benedict**

*Analyst, Robert W. Baird & Co., Inc.*

Q

You seem comfortable with kind of the progress you're making on clearing excess inventory. Just maybe take a minute and help everybody understand what the view is right now, given Target's kind of comments here [ph] to the calculus (00:02:12) change from Walmart's perspective?

**Judith McKenna**

*President & Chief Executive Officer-Walmart International, Walmart, Inc.*

A

Yeah. So good morning, everybody. Thank you for coming to spend some time with us. Looking forward to having the conversation today about International. But I'm happy, Peter, to stop this getting run out of the room, just to mention where we are from an inventory perspective. Some of you may have heard our Q&A on Friday with analysts and we reiterated what we've said at the earnings Q&A, which is Walmart US was 32% up on inventory at the end of the quarter. John made it really clear that, of that increase, about a third of that is actually inflation.

There is another part of that, which is some stocking up that we wanted to do. But if you look at that total increase, about 20% of that increase, I think the way he described it is, if he could snap his fingers, he would wish that we didn't have it and we're going to work through in a thoughtful way. That is pretty broad across multiple categories. [ph] There's some in (00:03:17) apparel, there's electronics, but it's multiple categories that it covers, including some seasonal which, of course, the weather will help. But that's not the only thing in that.

John gave the guidance Friday that it'll take us a couple of quarters to work through that and to do that in the right way. Nothing has changed for us since the update we gave you on Friday in that guidance. Can't comment on where other people are. But that's where we are. And just incidentally, from an International perspective, we're about 20% up in inventory in total. And again, got the same inflationary impacts. We've got a little bit that we're working through, but we took some of our biggest hits in China in Q1. And then the other thing that we have is we have markets that last year, like Chile for example, that literally had nothing to sell [ph] in GM (00:04:09) because of the stimulus that was there. So we're seeing some artificial lift because of the year-on-year comparative. So I hope that gives everybody the clarification of what we said.

**Peter Sloan Benedict**

*Analyst, Robert W. Baird & Co., Inc.*

Q

Yeah. No, perfect. Thanks. I appreciate that. So we'll now pivot to the International discussion. If you have a few comments you want to just maybe set the stage and then I've got a series of questions I'd like to run through.

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**Judith McKenna**

*President & Chief Executive Officer-Walmart International, Walmart, Inc.*

**A**

Yeah. Sure. And you did a nice job of setting out the scale. \$100 billion business, 23 countries around the world, 4 really large markets in that but 6 primary markets. The additional markets are all made up across Africa and Central America. They – one of them reports into Walmex, Mexican business, and then Massmart, South African business [ph] has a (00:04:53) sub-Saharan African countries.

And those of you that know us will know that over the last four years we've undergone a pretty radical portfolio rationalization, very deliberate and very thoughtful, including our largest market, which is where I grew up, which is Asda in the UK. We did that to be able to better resource the markets where we believe the most opportunity is and to set those markets we divested from up for long-term success and we still have a relationship one way or another with all of those markets, which is actually really healthy. And we also invested in that period. Clearly, the main investment that you will know about is in India in the Flipkart business and the PhonePe business. We've also made a number of smaller investments along the way as well, for example, a food delivery company in Massmart in South Africa.

People often ask me, Peter, what's the role of International in Walmart? And it's really simple, it's long term and sustainable growth. To be sustainable, you have to be generating returns in the long term as well. So that is what we're here to do. So, growth is really important. The second thing is that, we also help diversify risk in terms of around the world in the markets that we're in. And then the third role that we have is a window on the world. So, I wouldn't ever underestimate how much we learn from operating the markets we do, which is an advantage to the whole group. China is a great example of that.

And then finally, our role is talent. So, we both develop talent in the markets that then travels around the world. I'd be an example of that. But also give people opportunities to run businesses like end to end that they may not get if they were just into the US business. So, that's a really important role that we play as well. So, all of those things are true. I can talk through and we can talk about some of the markets. Each market has a strategy because our overall strategy is strong local businesses powered by Walmart.

Another way to think about that is [ph] like (00:07:02) multi-local with the advantages of global scale. And that's really been the secret to our success, I think, particularly through this COVID era as well, because the markets are empowered. But there are certain key things in the powered by Walmart that run through everybody. So individual markets depending on size, demographic, market development, scale, formats that we run. But these themes that run across, Peter, are things like omnichannel and e-com capabilities that we're building out. It's new revenue streams such as adtech and some of our fintech services and those areas. It's new customer segments that we're going to like health, we've got travel in India.

And then finally, the common theme that run through everybody is how we globally leverage our best practices in our scale to best effect as well. So we've got individual strategies, really important, but then we have these global themes that we try to apply as well. And that's really where we're seeing. For the last couple of quarters, we've had some really strong growth. And I was really pleased to see International called out in the earnings script as having another strong quarter. We were a 10% growth through that and that was really encouraging. And I think the portfolio rationalization has really helped us focus and deliver some of those results.

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**Peter Sloan Benedict**

*Analyst, Robert W. Baird & Co., Inc.*



No, that's great. It's clear that you run the fifth largest retailer in the world, a lot there. On the portfolio rationalization or optimization, help us understand maybe what you see going forward. Is there more optimization that has to occur? And how do you think about ownership structure? What's the right ownership structure for the different markets?

**Judith McKenna**

*President & Chief Executive Officer-Walmart International, Walmart, Inc.*



Yeah. I'm happy with the markets that we're in. Each market plays a different role. And just so everybody knows, it's Canada, Chile, China, India, Africa, Mexico, which is the Walmex business, including Central America. That's the six markets that we operate against. I think that is a good portfolio with everybody playing a different role within that. The powerhouses in there are the larger markets. It's like Walmex. I'm sure we'll talk about Walmex. It is a great business and that is 40% of our total revenue comes out of Walmex approximately.

Will we see more? Happy with what we have. I think they play a role. What you'll continue to see us do is what we've got out there announced at the moment is where it make sense within a market to do a little bit of rationalization, we'll keep doing that. So there's a – we've made an announcement recently that Massmart is going to dispose of its Cambridge Food business and also do some [ph] tidying up of (00:09:50) stores in East and West Africa. So an in market rationalization. You'll have seen in Central America that we are thinking about what is the right structure for the long term for El Salvador, Honduras and Nicaragua.

So I think that is the right – the right way to think about is continue to be vigilant about what there is. And we'll continue to make investments where we need to within a market. What is the right structure? We've got public companies where majority holders along with minorities in private companies like a Flipkart, we've got 100% subsidiary. And then we've got a load of partnerships that sit alongside [ph] those. (00:10:35)

The thing to remember about international and I think why we are being successful is one size doesn't fit all for us. And you've got to be comfortable in a world where you can have a flexible approach to what that ownership looks like to get the very best for the market. Again, I'll come back to Walmex, public company, highly regarded in Mexico, on the Mexican Stock Exchange. We are the majority shareholder on that one. And I think we get the best of both worlds for it. We have both a public ownership. And they were public when we bought into them. And they have the advantages of the scale that we can bring to them to help them be successful. So, one size doesn't fit all. Thoughtful about it.

If you'd asked me five or six years ago, I'd have said this flexibility wasn't a forte of ours. And I think that's something that we've developed, particularly over about the last four years in terms of being much more comfortable about when we need to be in control and when we don't be. And that's this multi-local approach is part of that.

**Peter Sloan Benedict**

*Analyst, Robert W. Baird & Co., Inc.*



Absolutely. And you're in a unique position to be able to see kind of consumer behavior across different markets, right? Maybe any call outs you'd like to share with folks in terms of what you're seeing consumer behavior wise across the international spectrum?

**Judith McKenna**

*President & Chief Executive Officer-Walmart International, Walmart, Inc.*

A

Yeah. Again, each market is in a slightly different position. We see inflation, of course, in every market. Chile being probably our highest statistically and China is our lowest. But yeah, I'm not sure whether that is there yet or not, to be able to understand the China inflation position. I think how we're thinking about the consumer, as you heard, again, we talked about for the US, it's the same around the world. We're clearly concerned about inflation and some inflationary pressures for them. And through Q1, we saw consumer confidence pretty – held up pretty reasonably, remittance is flowing into Mexico held up pretty strongly. There was no really concerning signs. But we can see some of the trends that are coming and we can see the cost pressures in that.

What the real question is, what do we do about it and how well prepared are we for whatever lies ahead. It's not like when the pandemic hit, we were suddenly hit overnight and we had to react to it. We're getting some forward visibility on this. We have a unique advantage in that. We have CEOs and C-suite leaders around the world that have worked in some of the most inflationary environments in the world. So our Head of Walmex is Brazilian, our Head of Canada is Argentinean and I have multiple people that have worked in other particularly Latin American markets. They have seen inflation and they have seen deflation. And what they've been doing, Peter, is they have been running seminars for the rest of Walmart on how to think about this; what should you look at; how should you think about rollbacks; how should you think about supplier relationships; how should you think about long-term contracts that you've got; how should you think about going – controlling what you can control and going into every detail.

The last call that we had, there was 168 people on that call. And what was interesting about it was, it wasn't just merchants and it wasn't just supply chain. That was broad based across every function in the organization, because that's what it's going to take as we go into this era. We're also lucky to have a really good format mix, and particularly again for Walmex. Remember, that's our biggest market by quite a long way because they actually operate at all spectrums across the demographic there. So they've got hypermarkets, as you know Walmart's you see them here. They've got Sam's Clubs, which is a slightly higher demographic reach. And then they also have a [ph] Bodega, (00:14:33) which I actually think is probably one of our most powerful formats in the world for Walmart, which is a discount hypermarket from 40,000 square feet running down to 4,000 square feet [indiscernible] (00:14:47) in that. So that range that is already for the value seeking customer and that gives us some real opportunity there to play the different formats and be able to respond to this.

**Peter Sloan Benedict**

*Analyst, Robert W. Baird & Co., Inc.*

Q

Yeah. Walmart – Mexico strikes as kind of that most fully developed maybe ecosystem that [ph] firewall (00:15:04) that's really working kind of a focus for the rest. And it's great to hear the Walmart being able to leverage that inflation playbook across the organization because, obviously, something that US companies are dealing with that they haven't had to for some time.

Let's dig in a little bit to some of your other markets. India.

**Judith McKenna**

*President & Chief Executive Officer-Walmart International, Walmart, Inc.*

A

Yeah.

**Peter Sloan Benedict**

*Analyst, Robert W. Baird & Co., Inc.*

Q

It's – obviously, it was a big investment for you guys a few years ago. Just tell us kind of how things are going in India? What your thought process are? You have to deal with the government there. There's a lot of changes going on there. But just kind of key trends, positioning, how you kind of think about kind of push in India?

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**Judith McKenna**

*President & Chief Executive Officer-Walmart International, Walmart, Inc.*

A

Yeah. It's interesting. I was – I think I was minus four weeks on the job when Doug said to me, have you heard of a business called Flipkart and dispatched me off to India. And the rest is a little bit of history. Clearly invested in a \$20 billion valuation. They raised at \$38 billion last year. So clear proof of the value that's been created over that period of time. The investment case for why India and why Flipkart hasn't changed. India has 1.3 billion people. It has an average age of – median age of 29 years old, very young, population, digitally savvy, and increasingly coming into an e-commerce and digital world, so the investment case was that. What we liked about Flipkart was it was homegrown Indian business, completely focused on the Indian customer.

And then the PhonePe business. We believe there was runway for a payments business in the market as well as UPI had just opened up – the [ph] Unified (00:16:47) Payments Interfaces, which is the government kind of guardrails for how payments are made through India. That's not changed. And we've been really clear and – that we've been happy at every step of the way over the four years that we've made the investment. So they've achieved our expectations and they've delivered what they need to deliver.

The way that businesses think about how they're building out, both of them is slightly different. Maybe if I just start with Flipkart, there – how do you strengthen core commerce? How do you create new revenue pools? And then how do you build out the ecosystem? And the core commerce, they have real strength in apparel. They have a business there called Myntra, which is a standalone platform. Again, slightly higher end premium offering, very strong. And then the core apparel business as well. They're expanding in areas like home. So that core growth is really encouraging as they're building that out.

The new profit pools is really interesting. They are our biggest market by a long way for advertising revenues. But they're also thinking about ways they can offer software as a service. And in fact, one of the markets that we are using them for is our Chile market. So they're building our adtech platform for Chile, which is a really interesting development for them and that's building out the ecosystem. They're really thoughtful about what adjacent verticals they can go into. So they've just bought a business called Cleartrip, which is travel. Good time to get back into to travel, primarily a domestic business. And then they've also invested in a digital pharmacy platform called SastaSundar, and they launched Flipkart Health+ what is that couple of months ago now. Actually, from the acquisition to the launch, it was just four months, which is incredible and a testament to the speed and agility with which they work. So great business, great opportunity still ahead of them, being constantly hitting our expectations. And I can see in the way they're being thoughtful about how they build their strategy out now, these are really clear steps to future value creation.

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**Peter Sloan Benedict**

*Analyst, Robert W. Baird & Co., Inc.*

Q

And just following up on that is the path to profitability. Is it these alternative profit pools that are really going to drive that? Can the core com business actually get to profitability? And how important are those in this next step to monetization?

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**Judith McKenna**

*President & Chief Executive Officer-Walmart International, Walmart, Inc.*

A

Yeah.

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**Peter Sloan Benedict**

*Analyst, Robert W. Baird & Co., Inc.*

Q

Speculation around IPO, those types of things.

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**Judith McKenna**

*President & Chief Executive Officer-Walmart International, Walmart, Inc.*

A

It wouldn't have been a good question if you didn't ask me about the IPO. Look, the [ph] patch project seen (00:19:30) improving profitability in the call, but clearly, like many e-commerce businesses around the world, those sort of other revenue streams that come in really help with that as well. And the adtech one is the major one. And you can't really separate them, because you can't have one without the other. So I don't see this as there's a revenue stream. Here's the [ph] core. (00:19:52) They're actually fully integrated. And I think that's the way the business thinks about it.

By the way, that advertising stream is particularly important in Flipkart because of the sellers. And one of the things that they're running is seller academies to help sellers get better at doing advertising on the platforms in a self-service and easy way. So this mutually enforcing ecosystem that they're building out to be able to do that.

On IPO, it was actually in the original press release when we did the acquisition, which we're supportive of the business doing an IPO when the time is right for it. And the time is right will depend on a number of factors, not least the markets, but also the business performance. They've hit our deadlines walking through that. We wouldn't have invested if we didn't believe they could become profitable in the longer term and we continue on track for that.

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**Peter Sloan Benedict**

*Analyst, Robert W. Baird & Co., Inc.*

Q

Perfect. That's great. Let's pivot over to China because I really want to get a chance to touch on this. Obviously, how are the lockdowns impacting your operations? How has Walmart China kind of evolved to these conditions? And just as part of this, talk about how your approach to China is different than your approach to India, because you're coming at it from a different way?

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**Judith McKenna**

*President & Chief Executive Officer-Walmart International, Walmart, Inc.*

A

Yeah. Different demographic profile and 100% owner of the business. But we've been there 25 years. We have two formats there. We have the Sam's Club format, which we have about 36 clubs, and then we have the hypermarkets format as well with 350 clubs at stores in that. So very different business profile. Still huge opportunity in the market there, and I think that's really important to remember.

The current situation there, I can't stress to you enough how challenging that is. You've all read about some of the lockdowns that are happening, Shanghai clearly. And I was just sharing last week, Peter, that to give you an idea of the scale of this, we have five stores and three clubs in Shanghai. They would normally operate with about 2,500 – 2,400, 2,500 associates to run those units. At the worst, we've been operating them with 170 people, not per unit, I mean, in total. And the business has entirely pivoted to delivering fresh food into homes, apartment buildings, fulfilling government contracts in Shanghai. And this is an amazing statistic, which is they've sold more fresh fruit and vegetables in Shanghai in the last few months than they have done in multiple previous years. That



wasn't the focus and the entire business is pivoted. So I tell you that to give you an idea of how that business is having to think and having to scale.

Two big opportunities there. First is Sam's Club is still a huge opportunity for us. And the second is Christina Zhu, who's our CEO there, is really thinking about what is the role of hypermarkets for the long-term in China. Their role to be able to play in an omnichannel world is becoming increasingly clear to us. We've got some reinvention to do like general merchandise offers in some of those areas, but there is still a lot of runway for them as well, particularly if you think about the integration with some of our partners like JD and Dada, both of whom are investors there, and both of whom are really good example of where we would invest in a business if we think it actually provides strength to the core [indiscernible] (00:23:21). So still a lot to do. The number one priority, though, is to get through the next few months for that business and just huge thank you and credit to what the teams are doing.

**Peter Sloan Benedict**

*Analyst, Robert W. Baird & Co., Inc.*

Q

[indiscernible] (00:23:31) And you mentioned earlier about kind of best practice sharing around inflation, which is pretty straightforward and clear. Maybe touch on other ways that Walmart International is kind of helping maybe Walmart US...

**Judith McKenna**

*President & Chief Executive Officer-Walmart International, Walmart, Inc.*

A

Yeah.

**Peter Sloan Benedict**

*Analyst, Robert W. Baird & Co., Inc.*

Q

...be a better business, whether that be digital commerce, supply chain automation. I know US is under a big role here with supply chain automation. So, maybe what are some of the learnings that the...

**Judith McKenna**

*President & Chief Executive Officer-Walmart International, Walmart, Inc.*

A

Yeah.

**Peter Sloan Benedict**

*Analyst, Robert W. Baird & Co., Inc.*

Q

...International market can provide?

**Judith McKenna**

*President & Chief Executive Officer-Walmart International, Walmart, Inc.*

A

So maybe think about this in three buckets. We share talent. We share best practice, innovation and processes. And we share technology. So you'll be familiar with the glass platform that the US developed. We are deploying that in Canada and Mexico as we speak. On the automation, we are actually parallel testing with the US different technologies. So in order to speed up the enterprise total on how fast we learn on automation, Canada is testing some things that the US aren't testing and they will take the best of both of them to see what the right answer is or maybe have multiple suppliers for some of our automation.

You've then got this best practice sharing, which is multiplied around the world. Mexico is our leading market actually from an ecosystem build out and we've been using them as an example of how to think about payments, for example, and helping the business that the US is set up to. And in talent I mentioned earlier. I wouldn't underestimate the power of talent and moving around. I came from the UK, which was very strong in grocery online, pickup, delivery and we used and imported all of that learning into the US when we did it.

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**Peter Sloan Benedict***Analyst, Robert W. Baird & Co., Inc.*

Q

I think we may have time for one more here. So let me hit you on some of the financial stuff. Maybe talk about how Walmart International competes for capital inside of Walmart in general? And then maybe talk about from a P&L perspective, the trajectory of the top line. Do you think you can grow profits faster than revenue in the International business as you look out over the next few years?

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**Judith McKenna***President & Chief Executive Officer-Walmart International, Walmart, Inc.*

A

Yeah. So, I'm not going to be forward-looking in what we did. So that's no surprise. You asked me this last time as well. And then how do we think about allocation to the markets. This is [indiscernible] (00:25:50). And we're looking for this balance between each market about where we're going to get the best returns and where we can see the biggest opportunity to be successful. So again, coming back to our Walmex business, a reminder, that's a \$63 billion market capital business in its own right, is that we know we need to go as fast as we can building out the ecosystem. So that is one of the areas where we'll invest heavily.

Across all the markets, we're investing in supply chain. And we know what we need to do, but we'll always take a balanced approach to it. And that's one of the beauties of this risk diversification that I talk about, which is some markets push forwards at certain times than in others over time. So we have some calls that we protect, like our remodel program, building out our e-commerce programs and then thinking about our supply chain, and then we flex around that depending on a lot of different circumstances.

Been a challenging few years for CapEx because like we haven't been able to remodel as many as we wanted to so we got a bit of catch up to do there, but – and company overall, one of the beauties of Doug having run International is he's very thoughtful about you can't underinvest in it. And honestly, that's why we've made some of the investments that we made because we knew we would get ourselves into a position where that would be a challenge. But what does it set us up for? It does set us up for this long-term sustainable growth, which is both on the top line and on the bottom line.

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**Peter Sloan Benedict***Analyst, Robert W. Baird & Co., Inc.*

Q

Fair enough. All right. Well, I didn't get my go-forward view on the P&L, so maybe I'll sneak one in on ESG. I know that's a topic that just of interest...

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**Judith McKenna***President & Chief Executive Officer-Walmart International, Walmart, Inc.*

A

Yeah.

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**Peter Sloan Benedict***Analyst, Robert W. Baird & Co., Inc.*

Q

...for a lot of people in the room. So maybe we'll close out with a minute here on ESG and then wrap it up.

**Judith McKenna**

*President & Chief Executive Officer-Walmart International, Walmart, Inc.*

A

Yeah. So, we – by the way, to do this, particularly in some of the markets we operate in, ESG is critical not just because it's the right thing to do, but our reputation in the market is critical to us being able to do business in that market. We have to have supporters there and this is one of the vehicles we can use to earn trust. Three elements to it, you've got the planet sustainability that we focus on; you've got opportunity providing jobs and employment not just in our business, but broader into the economy; and then you've got community as well. And how do we support local communities, local farmers in doing that. The Project Gigaton commitments that we made are applicable in every market. They're all broken down.

Canada is doing some amazing things. It is carbon neutral last mile delivery. It is locally sourced beef in Québec from the Québec area. Mexico's also eliminating plastic bags. You've got them doing some amazing work from a plastics and recycling and recyclable economy as well. So every market is playing a different role in this, but adding up to the total for Walmart Inc. What I really like here is back to this theme of sharing best practice. This is moving really fast between markets and we're able to share that, so incredibly important priority. It's the thing everybody loves to talk about when we're together as a business, and I think you're going to see some real innovation coming out of the international markets that we can share as well. India actually is another great one for this. And if you think about for any e-commerce business, how do you reduce plastic packaging and how do you reduce packaging generally, they're one of the market leaders for us in doing that.

**Peter Sloan Benedict**

*Analyst, Robert W. Baird & Co., Inc.*

So, Judith, thank you for joining us this morning.

**Judith McKenna**

*President & Chief Executive Officer-Walmart International, Walmart, Inc.*

My pleasure. Thank you.

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