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FLO.N - Q4 2025 Flowers Foods Inc Earnings Call

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OVERVIEW:

Company Summary

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D. Anthony Scaglione *Flowers Foods Inc - Chief Financial Officer*

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Steve Powers *Deutsche Bank AG - Analyst*

Jim Salera *Stephens Inc - Equity Analyst*

Max Gumpport *Exane Bnp Paribas - Analyst*

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PRESENTATION

Operator

Good morning, and thank you for standing by. Welcome to the Flowers Foods fourth-quarter and full year 2025 results conference call. Please be advised that today's event is being recorded.

I would now like to hand the conference over to your opening speaker today, JT Rieck, Executive Vice President of Finance and Investor Relations. Please go ahead.

J. Rieck - *Flowers Foods Inc - Vice President - Investor Relations, Treasurer*

Thank you, Tonya, and good morning, everyone. I hope everyone had the opportunity to review our earnings release, listen to our prepared remarks and view the slide presentation that were all posted earlier on our Investor Relations website. After today's Q&A session, we will also post an audio replay of this call.

Please note that in this Q&A session, we may make forward-looking statements about the company's performance. Although we believe these statements to be reasonable, they are subject to risks and uncertainties that could cause actual results to differ materially. In addition to what you hear in these remarks, important factors relating to Flowers Foods business are fully detailed in our SEC filings. We also provide non-GAAP financial measures for which disclosure and reconciliations are provided in the earnings release and at the end of the slide presentation on our website.

Joining me today are Ryals McMullian, Chairman and CEO; and Anthony Scaglione, our CFO. Ryals, I'll turn it over to you.

A.Ryals McMullian - *Flowers Foods Inc - Chairman of the Board, Chief Executive Officer*

Okay. Thanks, JT. Good morning, everybody. Welcome to the fourth quarter call.

I'm pleased with the progress that we're making to transform our business. Led by the strong performance of our leading brands and disciplined execution of efficiency initiatives, we produced results at the high end of our 2025 guidance range. Now as we look to 2026, our guidance does reflect ongoing category challenges, one fewer week, inflationary pressures, but also additional investments in our leading brands.

In response to the headwinds that we are facing, we're conducting a comprehensive review of our operations, including our brand portfolio, supply chain and financial strategy, to strengthen execution and position our business to reignite top line growth and expand margins over time.

I want to thank our dedicated Flowers team for their hard work and resilience during this period of change and our shareholders for their ongoing support. We remain focused on navigating near-term challenges while also laying the foundation for sustainable long-term growth.

And with that, Tonya, we are ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Steve Powers, Deutsche Bank.

Steve Powers - Deutsche Bank AG - Analyst

Great. Good morning, everybody. Thanks for taking my questions. So Ryals and Anthony, you both spoke to the comprehensive review that you've begun on brands and operations, et cetera. I guess maybe just if you could, I know, Anthony, you talked about it being the first inning of that process, but maybe talk a little bit more about how you've scoped that exercise, what the project plan is, kind of what things are in or out of consideration? Just any more meat on those bones would be happy -- would be helpful. And Anthony, if you -- any estimate of how long the game lasts, that also would be helpful.

A. Ryals McMullian - Flowers Foods Inc - Chairman of the Board, Chief Executive Officer

Sure, Steve. I'll start and let Anthony fill in. I certainly appreciate the thirst for more details on this. We are in the early innings of the review. But at a high level, we're conducting a complete review of our brand portfolio, the manner and magnitude with which we're supporting that brand portfolio.

We're evaluating other areas that are in additional need of investment. I think we're all aware that, by and large, the portfolio is performing very well across cake and our innovation platform and premium. The real issue for us is traditional loaf where we under-index, and that has been underperforming the category. And that has downstream effects in terms of operating leverage, et cetera. So one of the key focus areas, Steve, is how do we reinvigorate Nature's Own? Reigniting growth on that brand, generating demand for that brand is going to be a key focus area for us.

In addition, taking a look at supply chain, inclusive of the distribution network, to ensure that we are squeezing as much efficiency out of our operations as possible, is another key area of focus. So as we move through the year, obviously, we will continue to provide you all more and more detail as we go through the year. We're just in the early stretches right now.

D. Anthony Scaglione - Flowers Foods Inc - Chief Financial Officer

Yeah. And I would just add, I would characterize the review as a measured approach, working with Ryals and the rest of the management team on the evaluation around the portfolio, where it makes sense to invest. And this really leads to the CapEx conversation as well, where we're going to make those investments. It's a thoughtful and broad review. It's really not intended to be just for this year, but it's a multiyear process.

I don't know when we're going to get to the top of the seventh, but we'll -- to Ryals' point, we'll continue to make progress and provide that updates along the way.

Steve Powers - *Deutsche Bank AG - Analyst*

Okay. Great. And I guess, as part of that, Anthony, you spoke in the prepared remarks about a review of capital allocation. And some of that will be a review of the capital expenditures that you just spoke to. But maybe if you could speak a little bit more broadly to capital allocation.

We've spoken on this call, and in general, about the dividend run rate of Flowers. And obviously, cash flow has exceeded GAAP income, but at the same time, the call for the '26 EPS is obviously below the dividend commitment. So just how you're thinking about capital allocation more broadly inclusive of that dividend? Thank you.

D. Anthony Scaglione - *Flowers Foods Inc - Chief Financial Officer*

I appreciate the question. It's a great question. And we understand that the dividend is top of mind for investors, and our focus has always been driving shareholder value. And we want to convey the importance that we place on the evaluation of our capital structure and our capital allocation. And that's obviously a conversation we have with our Board.

I think we need to make progress on the overall strategic evaluation to determine if, what and how much we alter that capital allocation and direction. But I'd also like to say we remain committed, and I think we mentioned this in the prepared remarks as well, to our strong balance sheet, and we recognize the benefit of the investment-grade rating.

Steve Powers - *Deutsche Bank AG - Analyst*

Very good. Thanks. I'll pass it on.

Operator

Jim Salera, Stephens.

Jim Salera - *Stephens Inc - Equity Analyst*

Hey, Ryals, hey, Anthony. Good morning. Thanks for taking our questions. I was hoping you could offer us just kind of a high-level thought given your experience in the industry. What do you think the industry, both yourselves and other prominent players, can do to really stabilize this kind of traditional low piece of the category? Often in your remarks, you call out the pockets of growth for DKB and a lot of the specialized offerings that you have, but it seems like the traditional loaf is kind of the thorn in the side and it's been that way for quarter-after-quarter.

Is there a point where the marginal household is just finally washed out of the category and we can get to a stabilization point? Or do you see the frequency of consumption even for households that stay in the category continue to decline? Just trying to size up what we should be looking for to kind of get a glide path back to some semblance of kind of flat to then hopefully positive in the future.

A. Ryals McMullian - *Flowers Foods Inc - Chairman of the Board, Chief Executive Officer*

Yeah. Great question, Jim. And as I said, that's the key to everything for us really. Because we do have so much strength in the other parts of the portfolio where we've heavily invested. We've been extremely innovative in those other parts of the portfolio.

We've talked a lot about not only the shift to value in this most recent conversation about affordability, but also the shift to premium differentiated. And we've been a key player there. And our efforts have certainly paid off. You can see that in the numbers and in the share data. You're absolutely right.

Traditional loaf is the key for us. It's our largest brand in Nature's Own. It's also the number one brand. I think the soft variety will continue -- or traditional loaf, rather, will continue to be an important part of the category. But it's the trends that we see continue, whether that's a shift to premium, whether it's a shift to value, inclusive of small loaves, because I do think a portion of the current value play, if you will, is driven by macroeconomic factors that we see all the time in the bread category.

I think the difference now, whereas traditionally you would have seen a shift to private label, you're seeing a shift to lower-priced branded offerings that are pricing at parity or slightly above private label. And in the same environment, private label is down. So it's different this time around, but I think that the pure value play is cyclical. I think small loaves, however, offer something different. Not only is it value -- it certainly addresses that area of the market. But it's also demographic shifts, Jim. Smaller households, people getting married later, a desire not to waste product, in addition to, in the current environment, being more of a value offering.

So my point in saying all this is over time, I do think you're going to see the shelf evolve and change overall. And so it's very important for us to be prepared to shift with that. And we believe there are things that we can do with Nature's Own given its high loyalty rate, given its awareness, given that it's the number one brand, to bring additional attributes to consumers that they will value. So I do think that there is a path there. And we're excited about the changes that we have upcoming for that segment of the portfolio.

If we're successful in doing that, Jim, that goes a long way to getting us back at least to a stable state in traditional loaf, which will be very meaningful for the business, if not slight growth and recapture some of that operating deleverage. It's also important though to say, at the same time, as Anthony both noted, our supply chain review is involved in this too. So it's important to do both, to both address the demand for traditional loaf primarily, but also address our fixed cost base and ensure that we are operating as efficiently as possible.

Jim Salera - *Stephens Inc - Equity Analyst*

Got it. I appreciate all the detail on that. Maybe tying that to 2026, when you just think about the kind of interplay between the ramp in Simple Mills and then the legacy portfolio, can you just give us a sense on the cadence on the top line? I mean, obviously, 4Q has the 53rd week lap. But just should we expect a lot of the Simple Mills to kind of hit at the beginning of the year, is it more of a gradual rollout, just kind of the cadence of the top line growth as we roll through the year?

D. Anthony Scaglione - *Flowers Foods Inc - Chief Financial Officer*

Yeah. So if you think about the guide, the range is down roughly about 180 basis points to slightly up, effectively flat. And from that, we said the category, we expect the category to be down 4% from a headwind, which is anyone's guess at this point. But we felt taking a rational approach and conservative approach looking at that from that lens. The extra week adds about 150 basis points of pressure. And then the rest is going to be a combination of the Simple Mills [wrap] and the growth being from share in rate as we plan out the year.

Jim Salera - *Stephens Inc - Equity Analyst*

Okay, great. Thank you. I'll hop back in the queue.

Operator

Max Gumpport, BNP Paribas.

Max Gumpert - *Exane Bnp Paribas - Analyst*

Hey. Thanks for the question. I wanted to come back to the dividend conversation and just get more clarity on why not cut the dividend today. With your payout ratio going to well above 100% of your guidance for EPS, your leverage being in a difficult place, it looks like your current net debt represents anywhere from 3.5 to 3.75 times your outlook for adjusted EBITDA this year, which puts you at risk of tripping your 3.75 times covenant.

And then clearly, you're in a difficult place right now in determining how to finance the business going forward as you've come to the market with your outlook for '26, but with no CapEx plan for the year. So wouldn't it have been simpler just to cut the dividend now and get back to focusing on operations? Just looking for more clarity there. Thanks very much.

D. Anthony Scaglione - *Flowers Foods Inc - Chief Financial Officer*

Thank you. I'll take it and then pass it to Ryals. I think the team has stated this before, dividend is a function of our discussion clearly with our Board, our capital structure, overall allocations. And we recognize the need to address that holistically in light of both our strategy and overall capital structure. And our intent is to plan to provide that detail in the upcoming quarters. But I want to reiterate what Ryals just said.

We're in the early days of this comprehensive review. I can't necessarily discuss the dividend in detail at this point, but it is something that we are reviewing in light of our capital structure, in light of the bank covenant. What I would say, we're in compliance with all the covenants, and we have a strong relationship with our syndicates and we expect to refinance the upcoming maturity and also make some progress on debt paydown. So it is part of our overall review. And hopefully, that's helpful.

Max Gumpert - *Exane Bnp Paribas - Analyst*

Great. And then as a follow-up, I'm just looking for a bit more clarity on a few factors with regard to what's embedded in your outlook for 2026. Really, it's on four factors, so I apologize for the long question. But the first is, what are you factoring in with regards to the reduced SNAP budget this year? The second is, what potential impacts are you assuming from the Supreme Court case we have in March?

The third would be on that debt refinancing, the \$400 million in October that's coming due, are you assuming a refinancing at higher rates occurs in your outlook for '26? And then the fourth would just be, it seems like your guidance is embedding very large market share gains, so you're saying the category is down 4%, but it sounds like organic is closer to just below flat. So just what's behind that large market share gain assumption? Thanks very much.

D. Anthony Scaglione - *Flowers Foods Inc - Chief Financial Officer*

So I'll start with the SNAP, and we recognized reduction in EBT purchases and the pressure on the lower-income households, which is why I think our diverse portfolio of brands and products are structured to appeal at all household demographics. We don't break that out specifically, but we are monitoring that channel, ensuring that we are providing value at those price points as well.

Operator

And our next question will be coming from the line of --

D. Anthony Scaglione - *Flowers Foods Inc - Chief Financial Officer*

I wanted to talk about the other question. So the debt refi, as I mentioned, we're working with our syndicates as well as looking at the most efficient way to refinance. We're highly confident that that refinancing work would occur. Obviously, rates are going to be slightly higher than the rate of the bond that we're taking out, but we feel confident that's going to be part of our process as we look at the overall capital structure going forward.

And then the last two questions were the market share gain. Could you repeat that question?

Operator

Sure. I'll open the line back up. One moment.

A.Ryals McMullian - *Flowers Foods Inc - Chairman of the Board, Chief Executive Officer*

Yeah, I'll take that one on the market share gains, Max, if you're still listening. As we've talked about, we anticipate making incremental investments in our brands, also the innovation that we have coming forth across the portfolio, inclusive of Simple Mills having a record year for innovation, introducing 13 new items; the DKB snack brands coming forth with new items and, obviously, further innovation in the core. We also have our increased marketing investment that we're making this year. So all of those would give us confidence that we can continue to gain share in the marketplace.

As for the Supreme Court ruling, there's nothing embedded in guidance. So I don't think we would -- that's more of an operating issue. We wouldn't expect any material financial impact from the decision one way or the other.

Operator

Mitchell Pinheiro, Sturdivant & Company.

Mitchell Pinheiro - *Sturdivant & Co Inc - Equity Analyst*

Hey, good morning. So as it relates to the supply chain review, is -- I mean, as you look at the traditional loaf market, and obviously, that's getting a little smaller, are we -- should we anticipate perhaps some either bakery consolidation? Or is that part of the review?

A.Ryals McMullian - *Flowers Foods Inc - Chairman of the Board, Chief Executive Officer*

Yeah, Mitch, that's part of the review, but I would say, yes, that's an ongoing process. I mean you're aware we've closed several bakeries over the last few years, most recently, a bakery in Atlanta, one in Louisiana, one out in Arizona. So this has been sort of normal course for us as we continually review operations.

I think when we talk about supply chain reinvention in terms of this review, it's a bit more global in terms of how can we better leverage digital, AI, automation, in addition to network optimization. So it's more fully encompassing and looking at the whole picture and inclusive of the distribution network as well, how we get to market, where we place our DCs, et cetera.

Mitchell Pinheiro - *Sturdivant & Co Inc - Equity Analyst*

Okay. And I saw that you're moving your DSD, the P&L responsibility, to a regional -- back to the regional level. And this obviously is a return, I guess, to the past a little bit. Is that -- where do you see and how do you see that benefiting Flowers going forward?

A.Ryals McMullian - *Flowers Foods Inc - Chairman of the Board, Chief Executive Officer*

Yeah. So it's not really a return to the past. I mean, maybe, as you said, a little bit. But as we took a look at our operations and how we're operating in our business, I mean, there are regional differences in terms of consumer preferences, things like that. We also felt that there was a need for greater accountability closer to the individual markets. And by moving -- and this is for DSD, which is 85% of the business, doesn't really apply to the balance of the business.

But for DSD, having that higher degree of P&L accountability a bit closer to the market, and in some cases, having more local decisions, we thought was a prudent move to make in the current environment we're operating. I mean, obviously, this is a very challenging time for the company and for the industry. And so making sure we have accountability in the right place, the right people in the right places is of paramount importance.

Mitchell Pinheiro - *Sturdivant & Co Inc - Equity Analyst*

Okay. And then I guess just last question, is -- and there's also this optimizing your brand portfolio. Does that mean potentially selling brands?

A.Ryals McMullian - *Flowers Foods Inc - Chairman of the Board, Chief Executive Officer*

I mean we're looking at everything. I mean I certainly can't comment specifically on any contemplated divestitures, but it really is focused on optimizing the portfolio in a way that sets us up best for success. So that can mean anything from additional investment in brands, to SKU rat, to, yes, potential divestitures. But there's nothing concrete on the table at the moment.

Mitchell Pinheiro - *Sturdivant & Co Inc - Equity Analyst*

Okay. All right, thank you.

Operator

(Operator Instructions)

Max Gumport, BNP Paribas.

Max Gumport - *Exane Bnp Paribas - Analyst*

Hey. Thanks. Just a couple of housekeeping ones. So first would be, is there a level of maintenance CapEx you could speak to just as we're thinking through our models and the lowest level of CapEx we could potentially be putting in the model for '26?

D. Anthony Scaglione - *Flowers Foods Inc - Chief Financial Officer*

Yeah, let me qualify that. So maintenance CapEx for us is just, as you can imagine, the normalized CapEx that we look at across our bakery and real estate network. And that usually runs around \$2 million, plus or minus, per bakery per year. And looking at that from a historical, there's always going to be a special project or an initiative that's going to require CapEx, and clearly, we have the rest of the ERP project that we need to complete in 2026 and early part of 2027.

So that hopefully gives you a little bit of a range of, looking at it from the overall picture, there's an amount that we intend to deploy as part of that maintenance. It's really looking at that growth CapEx and really focusing our efforts and being laser-focused on that. And that's what's

inhibiting us, at this point, from providing that range. But as I mentioned in my prepared remarks, most likely that outcome is going to be the continued prudent approach that we've had in the past.

Max Gumport - *Exane Bnp Paribas - Analyst*

Great. And then on the \$0.08 impact to EPS from incentive compensation, any color on the cadence in which that line down occurred in '25? I imagine that a large chunk came in 4Q, but partly came in 2Q and 3Q as well. So I mean, more explicit help on cadence you could give us in regard to the \$0.08.

D. Anthony Scaglione - *Flowers Foods Inc - Chief Financial Officer*

Yeah. We actually adjust our accrual quarterly, and most of that adjustment occurred in the first three quarters of last year, just given the revised estimate. So when you look at the cadence, it's more for three quarters versus Q4.

Max Gumport - *Exane Bnp Paribas - Analyst*

Okay. And then on Simple Mills' sales, it looks like in 4Q, I mean, you ended the year a bit below the full year guidance, which I believe was \$221 million to \$223 million. You reported closer to \$214 million. So it seems like 4Q came in a bit light of expectations, but at the same time, your commentary still sounds pretty good on Simple Mills. So anything one-off that held back Simple Mills' sales in 4Q '25?

A.Ryals McMullian - *Flowers Foods Inc - Chairman of the Board, Chief Executive Officer*

Yeah, Max, it's Ryals. A couple of things. One, there were some inventory de-loading related to one distributor that kind of disrupted the timing of sales during that period. And they -- Simple Mills also had an issue with some coconut sugar that came in. All the affected inventory was in our control, so there was no recall or anything like that.

But that contributed to a little bit of a disruption in terms of sales timing in the fourth quarter. But to your point, we still feel great about Simple Mills. We expect them to be top line up double digits next year. Lots of innovation coming. So we're still quite bullish on the business. They're doing fine.

Max Gumport - *Exane Bnp Paribas - Analyst*

Great. And last one from me and I'll leave it there. It's just on margins for Simple Mills. It looks like it dipped to 11% EBITDA margin in 4Q versus 16% in the first three quarters. I think also that was roughly in line with your plans.

So I guess, one, is it really just all about tariffs coming on and then maybe some input costs running a bit higher too? And then could you give us a bit more color on how we should think about cost for '26, particularly given what we're seeing with almonds and inflation there? Thanks very much.

A.Ryals McMullian - *Flowers Foods Inc - Chairman of the Board, Chief Executive Officer*

Yeah. Max, you're spot on. It's almond flower and tariffs. And in addition to additional brand investments in the brand, I think you should expect that to continue into '26. But yeah, it's primarily the almond flower and tariff impact for Simple Mills.

Max Gumpfort - *Exane Bnp Paribas - Analyst*

Okay. Thanks very much. I appreciate all the questions.

Operator

Scott Marks, Jefferies.

Scott Marks - *Jefferies LLC - Equity Analyst*

Hey, good morning, all. Thanks for taking our questions. First one for me. You're talking about kind of heightened reinvestment in the business and some brands for 2026. But it seems like you've also already been on this journey since the summer in terms of small loaves and some protein offerings and Better For You. So just wondering if you can help us understand maybe what's changing and what's going to be different from what you've already been enacting in the portfolio?

A.Ryals McMullian - *Flowers Foods Inc - Chairman of the Board, Chief Executive Officer*

Right. Yeah, exactly, Scott. Good question. So as I was alluding to earlier, over the last several years, we have ramped up our brand investment, not just in marketing, but also in our innovation efforts around DKB, DKB snacks, obviously, the addition of Simple Mills, but also keto and protein loaves and Perfectly Crafted, just kind of -- I'll go on and list them all. But we believe that we're one of the most innovative producers in the category.

What's different this time, as I said earlier, is when you look at our portfolio, when you look at our market share performance, the clear issue is in traditional loaf, and that primarily means Nature's Own. And so a lot of the additional investment and innovation that we're speaking to today is around reigniting demand for traditional loaf and for Nature's Own.

Scott Marks - *Jefferies LLC - Equity Analyst*

Understood. Thanks for the clarity on that. And then second one for me is you're talking obviously about some of the category pressures. You also spoke a bit about some heightened competition within the category. So wondering if you can just kind of share maybe how you're thinking about the competition? Have you seen competitors do anything like rationalized some of their own production capabilities? Just wondering how competitors are kind of handling the current environment.

A.Ryals McMullian - *Flowers Foods Inc - Chairman of the Board, Chief Executive Officer*

Yeah. Nothing major that I will report in terms of bakery consolidation or anything like that. I think the competitive environment in the fourth quarter was pretty normal. No major uptick. In fact, for the category, price per unit was actually up a bit in the quarter. And that -- a lot of that is likely a mix shift to premium products.

Obviously, like the rest of the food industry, everybody is trying to figure this out, the rise of GLP-1s, the fact that it's coming out in a pill, the overall macroeconomic environment, while inflation has certainly come down, prices remain elevated and some consumers are struggling with that. So you see a lot of move to value, not just in terms of product but also in terms of channel, moving more to club stores and mass, et cetera.

So I think we're going to continue to see a consumer -- continue to see a pressured consumer for a bit longer, and we'll see how all that shakes out. In the meantime, what's important to us is that we're delivering products to consumers that have attributes that they want, definitely with a better-for-you bet, but also across the price spectrum. That's how we're looking at it.

In terms of promotional levers, obviously, we have that at our disposal. We tend to use that prudently and use it more for driving trial and repurchase rather than driving volume gains. You have to remember that this is a category with limited expandable consumption. And so we are very disciplined in our use of promotional activity. But where we need to do so, to protect share, we will. But we will use our enhanced TPM capabilities to guide us in that process and make sure that we are achieving the desired return on investment.

Scott, as an example of that, in the fourth quarter, we pulled back strategically on promotions. As I said, there's limited expandable consumption in this category. And typically, when we get aggressive with promotions in the fourth quarter, we don't get a good return on that investment. And so if you look at the share data, you will see that we pulled back pretty substantial in the fourth quarter, and as we move into the new year, get back to a more normalized cadence.

Scott Marks - Jefferies LLC - Equity Analyst

Appreciate the color. I'll leave it there.

Operator

I'm showing no further questions. I would now like to turn the conference back to Ryals McMullian, Chairman and CEO, for closing remarks.

A.Ryals McMullian - Flowers Foods Inc - Chairman of the Board, Chief Executive Officer

Okay, Tonya, thank you. I just want to thank everybody for taking time today and joining us for questions. We very much appreciate your interest in our company. And as always, we'll look forward to speaking to you again next quarter. Take care.

Operator

And this concludes today's program. Thank you for participating. You may now disconnect.

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