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Sonida Senior Living, Inc.

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Earnings Call

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Call Participants

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Jason Finkelstein

Kevin J. Detz
Executive VP & CFO

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Ronald Kamdem
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Presentation

Operator

Thank you for standing by. My name is Eric, and I will be your conference operator today. At this time, I would like to welcome everyone to the Sonida Senior Living Second Quarter 2025 Earnings Call. [Operator Instructions].

I would now like to turn the call over to Jason Finkelstein, Investor Relations. Please go ahead.

Jason Finkelstein

Thank you, operator. All statements made today, August 11, 2025, which are not historical facts may be deemed to be forward-looking statements within the meaning of federal security laws. The company expressly disclaims any obligation to update these statements in the future.

Actual results or performance may differ materially from forward-looking statements. Certain factors that can cause actual results to differ are detailed in the earnings release that the company issued earlier today as well as in the reports that the company files with the SEC from time to time, including the risk factors contained in the annual report on Form 10-K and quarterly report on Form 10-Q.

Please see today's press release for the full safe harbor statement, which may be found in the 8-K filing from this morning at the company's Investor Relations page [founded investors sonidaseniorliving.com](https://sonidaseniorliving.com). Please note that during this call, the company will present non-GAAP financial measures. For reconciliations of these non-GAAP measures to the most comparable GAAP measure, please see today's earnings release.

If you'd like to follow along during today's call. You can find Sonida's second quarter 2025 earnings presentation in the Investor Relations section of the company's website. In addition, we have included supplemental earnings information within our presentation consistent with prior quarter releases. On today's call, I am joined by President and CEO, Brandon Ribar; and Chief Financial Officer, Kevin Detz.

At this time, I'd like to turn the call over to Brandon for opening remarks.

Brandon M. Ribar

President, CEO & Director

Thank you, Jason. Good morning, and thank you for joining us on our second quarter earnings call. Entering the year, we outlined a plan to deliver year-over-year net operating income growth in line with the high end of our peers. And as we approach the last third of 2025, we remain on track to achieve these goals. The second quarter of 2025 continued to deliver growth on both a sequential and year-over-year basis.

Adjusted EBITDA grew 26.1% year-over-year in the second quarter, reflecting our ability to maintain G&A levels while driving NOI growth and despite a difficult year-over-year comp same-store net operating income grew 1.8% year-over-year and nearly 4% sequentially. On a total portfolio at share basis, NOI improved 5% sequentially. The year-over-year NOI growth was considerably slower than recent quarters driven by the challenging comp of an especially strong NOI margin in Q2 2024 as well as some specific challenges over the past quarter.

Kevin will elaborate further on the details of the results, but I want to touch on a few key elements of the past quarter that we do not expect to repeat moving forward. First, our business experienced an unusually high uptick in resident deaths with resident move-outs exceeding Q2 of 2024 by 18% in our same door portfolio, limiting our year-over-year occupancy growth. Our clinical teams implemented an enhanced response process with more targeted efforts test risk in our resident population, especially in those communities with elevated move-ups.

These efforts contributed to improvement in the back half of the quarter, and these improved processes will remain in place moving forward. Resident length of stay has slightly increased overall this year and

remains an area of intense focus. Combined with a 4% year-over-year increase in quarterly same-store move-ins and strong lead volume, we ended the quarter positioned for strong summer growth, which I will touch on in a moment.

The second component of the NOI comparison with prior year with the completion of significant investments in technology that have improved the quality of our operations and resident programming, but created a cost drag when comparing year-over-year. We expect to see continued return on these investments moving forward, driven by both rate and level of care fees as well as further benefiting our labor management practices. Finally, we completed significant changes to our operating and sales support overhead structure to further invest in our sales and marketing capabilities, while maintaining G&A levels flat on a run rate basis.

To improve consistency of systems, process and communication across the organization, we reduced our operating structure from 3 to 2 divisions, while investing further in our sales and marketing and training capabilities. These changes allow us to more quickly integrate new communities into the portfolio and drive successful sales and clinical practices across the business. Three months into the change, we are clearly seeing the desired outcomes, and I'm proud of our team for not just minimizing the disruption to the business, but reacting nimbly to drive accelerated growth thus far in Q3.

At the end of July, we had a record high occupancy for our same-store portfolio of 88.2%. This positions the business for a strong back half of the year and for continued sequential NOI growth in Q3. I'm also encouraged that we achieved growth in June and July, while also driving our average rate for RevPAR to the highest quarterly level in the portfolio's history in Q2. These 2 key metrics position the business to deliver significant revenue and margin growth in the back half of the year and beyond.

Switching to performance on the acquisition front. Our portfolio of 19 operating communities acquired in 2024 recently reached another milestone at the end of July, finishing the month above 82% occupied at share for the first time. The increased occupancy from a baseline of 77.5% on November 1, 2024 at the time we completed the last of our 2024 acquisitions, combined with ongoing rate growth should accelerate NOI growth in this segment for the second half of 2025.

Kevin will provide further detail on the expense side of the business within the acquisition portfolio. And overall, the transactions remain in line or exceed underwriting on the whole. Our strategic inorganic growth plan remains on track as we completed 2 acquisitions in Q2 and today announced the third acquisition set to close in Q3. Each of these acquisitions reflect our commitment to purchasing high-quality, newer vintage assets in strong markets where our operating capabilities can drive significant NOI growth. We continue to identify deals with stabilized cap rates exceeding 10% while densifying in target markets leveraging our G&A and the strength of our regional operating leadership.

Finally, in July, we celebrated the opening of our newest community located in Cincinnati, the community was purchased at the end of 2024, and we obtained licensure followed by welcoming 11 new residents from our waiting list last month. Before I turn the call over to Kevin, I'll spend just a few minutes on our sales efforts and team development, both critical to Sonida's growth story and bright future. On the sales front, we invested in marketing, sales training and regional management roles in Q2 and have seen immediate results from improvement in each phase of the sales process. Lead volume in July exceeded our average for the first half of 2025 by 16%, driven by enhanced digital marketing processes. More importantly, digital leads through non-aggregator channels increased by 48% in July and move-ins through Sonida channels comprised 67% of the total. The bottom line is our move-ins hit an all-time high without increasing reliance on third-party paid referral relationships or material discounting and concessions.

These additional resources will focus substantial time and effort on the outlier performers within the total portfolio and will enhance our capabilities for accelerating performance in new acquisitions. Our bottom 10 communities in occupancy, including 6 acquisition communities acquired with significant vacancy, represent 1/3 of our total vacant units. Each community is located in a growing market with strong opportunity for improvement in the second half of 2025. Additionally, nearly half of our communities remain over 90% occupied with a record 8 communities operating at 100%. Switching to team development.

We continue to experience material reductions in both employee turnover and leadership turnover within our communities. Kevin will share additional details on company-wide trends, and I'm confident these retention levels are a result of the investments we have made in wages, benefits and the positive and supportive culture in Sonida. As mentioned in previous calls, our incentive plans are structured to promote the development of stable, tenured community teams. We believe investment in our community leadership and nursing talent to deliver a high-quality offering consistently supports resident rate growth and reduces the cost of employee turnover.

I'll now turn the call over to Kevin for a detailed discussion of our Q2 financial performance.

Kevin J. Detz

Executive VP & CFO

Thanks, Brandon. Before I discuss our second quarter operating results, I wanted to start with Slide 11 and remind participants of our 3 portfolio categories, same-store acquisition and repositioning.

In addition to the 20 communities acquired in 2024, the acquisition portfolio also now includes both of our second quarter single community acquisitions. Starting on Slide 12 with the same-store comparisons of sequential and year-over-year quarters. Year-over-year occupancy grew 40 basis points from 86.1% to 86.5% on a same-store basis, coupled with a 5% RevPAR increase over the same period annualized same-store revenues increased \$12 million or 5.1%.

On the margin side, at 28% flat, the company obtained its second highest quarterly NOI margin post COVID, with only Q2 2024 margin of 28.9% exceeding that. It is important to note that Q2 2024 same-store NOI margin was favorably impacted by approximately 60 basis points of onetime utility refunds recognized in the period and to a lesser extent, not yet having fully realized the run rate cost of the company's staggered implementation of its investments in technology.

And sequentially, same-store occupancy decreased 30 basis points from Q1 2025. I will expand more on the company's recent and expected occupancy trends in more detail later in the presentation. Moving on to Slide 13. Our 2024 acquisition communities continued to deliver growth. Note that these figures include the actual results of our 2 joint venture investments from 2024, the December 31, 2024 acquisition of our Aerie Hills community that opened in July and 1 month of June operations for both our Q2 community acquisitions.

Our sequential increase in revenues of 8.1% is reflective of a strong annual March 1 rate increase actualized for 1 full quarter as well as a 1-month revenue contribution from the 2 communities acquired in the quarter. Acquisition portfolio NOI at share and sequential quarters was roughly flat. For comparative purposes, Q1 2025 included \$300,000 in onetime insurance and utility credit trips following the quarter of acquisition and to a lesser extent, the operating expenses incurred on Aerie Hills in advance of its July opening.

These occurrences, coupled with 1 month of operating expenses in June on the 2 2025 acquisition communities resulted in the temporary NOI margin change between sequential quarters. With the settling of transition expenses in forward quarters and a strong start to occupancy for the third quarter, we anticipate margin stabilization and growth.

Moving to total portfolio at share on Slide 14. The company grew its year-over-year total portfolio NOI at share by 20% or \$14 million on an annualized basis. Note that the overall decrease in year-over-year occupancy and margin percentage for the total portfolio share is attributed to the inclusion of acquisition communities at lower average occupancy and margin levels starting in late Q2 2024.

Over to Slide 15, where we will review occupancy in more depth. Comparing to the same quarter in 2024, same-store occupancy increased 40 basis points. Net move-ins increased by 20 net residents or 14% on an annualized basis. However, the net occupancy increase is muted due to the highest historical quarter of move-outs in Q2 2025, [just apposed] with the lowest historical quarter of move-outs in Q2 2024, resulting in an 18% or 88 resident difference in total move-outs.

Breaking down these anomalistic quarters even further, nearly half of this increase or 43 of the incremental 88 residents was attributable to increased deaths over the same period. Halfway through the quarter, we have seen Q3's incurrence of move-outs through death drop back down to lower historical levels. Closing out occupancy for our same-store portfolio nearly halfway through the third quarter, I am pleased to report that occupancy has moved up significantly from June reporting levels.

The company increased its same-store occupancy by 90 basis points from 87.0% to 87.9% when comparing the first day of July to the first day of August, which is a trend we expect to continue in Q3. Moving ahead to the rate discussion on Slide 16. As a reminder, on a same-store basis, the average annual rent renewal rate on March 1 was 6.9%, which was applicable to the 71% of the total same-store residents.

Comparing the rate profile to Q2 2024, the company continues to drive private pay increases with a near 5% increase across quarters. Over the past year, the company has invested in its on-site clinical resources and clinical technology platforms, both contributing to an increase in level of care fees by 11% year-over-year. Additionally, the migration away from premium and contract labor to more permanent upskilled clinical functions, further supports the overall resident experience and the reduction in discounts and concessions of 13% when compared to the same quarter in 2024.

Diving into more of the margin drivers, we will move ahead to Slide 17 to discuss same-store operating expense trends. As a percentage of revenue, total labor excluding benefits improved 40 basis points from the previous quarter. This was a result of the company keeping daily total labor costs flat over the same period, with Q2 having 1 more Labor Day than Q1.

This flow-through profile is anchored by a strong employee base with increasing year-over-year retention, with the exception of a single community that comprised 73% of the quarter's total contract labor costs, contract labor continues to remain low and infrequent across the entire portfolio. This loan community has no contract labor present in the community today.

On a year-over-year basis, same-store direct labor increased approximately \$1.5 million, with revenues growing at approximately double this rate over the same period. Note that half of the increase in direct labor is attributable to upgrading wages for our clinical workers. This investment has led to an outsized level of care revenue increases through more timely and accurate care assessments as discussed earlier.

More importantly, the investment in our community clinical teams have led to an annualized retention increase of 17%. From a total company perspective, the investment into our clinical teams should also strengthen the clinical acuity expertise needed for further expansion into both assisted and memory levels of care. On the nonlabor expense front, absolute costs increased only \$200,000 from Q1 to Q2 2025, and actually decreased on a per day basis. Over the last 12 months, the nonlabor expense profile has remained flat.

This is largely the result of our ability to hold fixed cost increases to inflationary levels in areas such as insurance and real estate taxes, while now having fully recognized the run rate impact of the programs and technologies that we've implemented over the last 12 to 18 months. Closing up the PL for this quarter's earnings, our G&A continues to show stabilization following 2024s onetime build-out of our business development and operational excellence functions to support overall growth initiatives. G&A levels for the year remained slightly below normalized run rate Q4 levels due to a slight reduction in total FTEs over those periods as well as focused spending controls tied into a revised operating cadence implemented in the second half of 2024. Finally, Brandon addressed a significant personnel restructure in his opening remarks. From a financial perspective, the company was able to realign its operating divisions from 3 to 2 and invest in key sales, marketing and training roles at a net 0 impact to G&A.

Notwithstanding future material acquisitions, the company does not expect any meaningful changes to its current G&A composition. Consequently, the 2 community acquisitions this year were brought in without adding FTEs at the above community level.

Moving to the balance sheet on Slide 18. I am pleased to announce another significant achievement relative to the company's improving balance sheet. Last week, we successfully closed on a restated

financing agreement with Ally Bank that provides for an additional 5 years of term, which includes 2 1-year extensions and a variable interest rate of SOFR plus 2.65 with a step down to SOFR plus 2.45 subject to achievement of certain performance thresholds.

The initial proceeds of \$122 million were used to pay off the current Ally term loan of \$113 million, with the remaining borrowings collateralizing the additional Alpharetta community acquired in June. The revised Ally term loan provides for an additional \$15 million in delayed draws as certain financial covenants are attained. With the December 2024 amendment of our Fannie Mae loans and the restated Ally term loan, approximately 80% of our debt has an effective maturity date of early 2029 or later with our credit facility representing 11% and expiring in mid-2027.

Our total debt at shares comprised of 59% fixed rate debt. With the inclusion of the credit facility, the weighted average interest rate is 5.6% for the portfolio, with the variable rate debt nearly fully hedged. Currently, the company has \$75 million of capacity remaining under its facility, with approximately \$33 million immediately available at the end of the second quarter. The company anticipates an increase in availability as the underlying borrowing base assets securing the facility continued to expand our NOI profile.

The company continues to execute on its long-term strategy of pushing out low rated loan maturities and delevering the balance sheet with a target of 7x based on acquisition NOI stabilization, continued same-store growth and responsible debt management.

Finally, as of today, the company is in compliance with all financial covenants required under its mortgages and credit facility. And finally, on Slide 19, we will revisit the [Lustre Bridge] to \$100 million of NOI, which is based on 2024s pro forma in-place NOI of \$78 million and an assumption-driven placeholder for growth through a community stabilization of \$22 million.

We are excited to realize \$12 million in annualized NOI growth based on an annualized June NOI with more NOI upside available through continued stabilization of the 2024 and 2025 acquisitions and a very strong start to occupancy halfway through the third quarter. As a result, we continue to believe that this \$100 million of NOI is an achievable near-term target with a meaningful upside thereafter.

Back to you, Brandon.

Brandon M. Ribar
President, CEO & Director

Thanks, Kevin. Looking ahead to the broader 2025 investment landscape, we remain disciplined deploying capital where we see accretive opportunities that offer compelling risk-adjusted returns and clear strategic value. Despite the increased investor interest in senior housing, we see a significant pipeline of opportunities that for a variety of reasons remain less competitive, especially among nonstabilized assets. .

As we continue to refine our operational integration playbook, we believe we are uniquely positioned to capitalize on this opportunity set. The acquisition announced today reflects these trends. The 98-unit community was built less than 10 years ago and is in a high-growth, high income submarket of Dallas-Fort Worth. The community has struggled to stabilize operations in the past couple of years, and we believe a targeted aesthetic refresh along with a renewed operational and sales focus will drive meaningful NOI growth.

Our investment team remains very busy as a significant amount of high-quality assets are coming to market, and we look to leverage all of the tools at our disposal as an owner-operator to accretively grow the portfolio. Sonida's focus on results-driven operational strategies, operational excellence and capital allocation yielded another quarter of strong performance. The combination of in-place revenue and NOI growth responsible and attractive investment activity and broader application of our owner-operator platform uniquely positions Sonida as a leader within the senior living and real estate landscape.

We have significant occupancy rate and margin growth opportunity in our portfolio today with more than \$60 million of annual revenue potential simply from filling up in-place vacancy at current market rates, we

are optimistic about the future upside in the business. We believe our sustainable growth outlook remains dependent on our commitment to culture and the development of a best-in-class team across all facets of Sonida. The integration of new communities has succeeded due to the dedication of our existing operating teams and the willingness of our new team members to put in the time and effort required to learn new systems, trust in Sonida's team-focused culture and adjust when challenges inevitably arise.

I'm highly confident we have built a business poised to sustain a high pace of growth while operating our communities with the needs and joy of our residents and employees as our foundation. This concludes our prepared remarks Operator, please open the line for any questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Ronald Kamdem with Morgan Stanley.

Ronald Kamdem

Morgan Stanley, Research Division

Just 2 quick ones for me. Just can we dig in a little bit deeper in some of the move-out and specifically move-in activity looks like a nice pickup in July? So you mentioned some personnel changes, just a little bit more detail of what changed, what you did differently to be able to drive that moving activity in July would be helpful.

Brandon M. Ribar

President, CEO & Director

Into what we saw as the drivers for July. So one, just kind of as we looked at the move-out activity that you referenced for Q2, we did see April on a year-over-year basis. Last year's April move-outs were significantly lower. And this year, we did see a bit of an uptick in deaths, just in that specific month.

But clinical teams responded and saw those numbers coming down towards the second half of the quarter and then also saw a nice movement in July. So on the sales and marketing front, we've really invested heavily in our digital marketing capabilities, been very focused on generation of leads and traffic through our own web channels and through our own kind of search -- Google searches that are not related to the third-party aggregators. And that's where we've seen a ton of success.

So to see our move-ins in July, really exceed any point previously, but also to see that those move-ins were generated from nonpaid sources gives us a lot of confidence in where we're going for the second half of the year because the move-ins are not coming with additional cost. So it was really what we were able to convert through our own web traffic and leads that were generated by our own community teams and not from the third parties that we saw a really strong uptick in July and continuing to monitor that in August.

So the folks that we brought on board with the sales and marketing expertise, they came from other industries, and I think they've brought a really sophisticated approach to how to generate the interest from new potential residents and their family members and look for that to continue.

Ronald Kamdem

Morgan Stanley, Research Division

Helpful. And then my second one, just on the acquisition front. Just hoping you can give a little bit more detail in terms of -- you mentioned the age of the buildings, but just what occupancy, what stabilized yields are, just how you guys are thinking about these opportunities?

Brandon M. Ribar

President, CEO & Director

Yes. So I'd say generally, the ones that we're seeing have occupancy in ranges that are in kind of like the mid-70s to low 80s-ish, where we've -- they're not broken communities, but they definitely will benefit from bringing in our sales and marketing capabilities.

We've also seen really good experience just on the bottom half of the P&L, where their expense control procedures and just those general processes don't have the same level of sophistication as we do. So we've gotten good pickup on the expense side, kind of right out of the gate with our acquisitions and still continue to feel confident in targeting those low double-digit types of stabilization levels on -- from a cap rate perspective.

So we see good pickup and accretive deals that are still out there definitely that we're going after as evidenced by the one that we just announced today as well, where it's in a market here in DFW that's growing rapidly. The opportunity to come in very quickly and move on both rate and expense management. We feel really good about this one that we've recently announced.

Operator

Your next question comes from the line of Ben Hendrix with RBC Capital Markets.

Benjamin Hendrix

RBC Capital Markets, Research Division

Just a quick question on your labor environment. I think your press release said \$2.2 million increase in labor cost. It seems like that may have outpaced same-store RevPOR growth of 4.4% by 35 or 40 basis, though that might not be an apples-to-apples comparison. Just first of all, is that an accurate read? And then as you talked about some of these incentive and retention investments, as those pan out, how do you think about RevPOR versus [indiscernible] spread going forward over the second half and into next year?

Brandon M. Ribar

President, CEO & Director

So on the labor front, we've talked about in the past and continue to kind of highlight that we want to make sure that we're paying for good stability in our strong leadership, especially on leadership roles and nursing roles. And over the last year and also as evidenced in Q2, we have increased wages on the nursing front.

And so we did a targeted effort on that, making sure that we're at or on the high end of market where appropriate. We don't expect kind of that ongoing consistent increases on a quarterly basis because we did do that on a relatively targeted basis. And what we're really pleased at is that we're seeing a large downturn in overall turnover of our employees. So that stability is going to lead to consistency on the outcomes as well as being able to drive rate to a higher level.

So I think what's important from an offsetting of the expense pressure from a wage perspective is that we have gotten our rates to the highest level for any quarter kind of in the company's history. And so being able to have that high rate level continue to push on that, especially in the same-store where occupancy has exceeded 88% at the end of July, we could continue to move on rate to offset what we've invested in the nursing and in the labor structure over the last year.

So it's a high point of emphasis for our team. I think it's important for us to note that the increase on the wage front was really wage related and not hours related. So we've been able to add residents without having to add a number of labor hours. So our whole thesis is to continue to invest in really strong talent that will stay with us so that we don't need to add additional FTE as occupancy grows, especially in our higher occupied communities.

So our expectation and our internal goals are to see the rate and the top line increases continue to surpass any sort of the inflationary pressures from an expense per occupied day perspective. So it's an area where we see opportunity to expand margin in the second half of the year and beyond.

Operator

There are no further questions at this time. Ladies and gentlemen, this concludes the conference for today. Thank you all for joining, and you may now disconnect.

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