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MSA.N - Q1 2025 MSA Safety Inc Earnings Call

EVENT DATE/TIME: APRIL 30, 2025 / 2:00PM GMT

OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day and welcome to the MSA Safety first quarter 2025 earnings conference call. (Operator Instructions) Please note this event is being recorded.

I would now like to turn the conference over to Larry De Maria. Please go ahead.

Lawrence T. De Maria - MSA Safety Inc - Executive Director, Investor Relations

Thank you. Good morning, and welcome to MSA Safety's first quarter 2025 earnings conference call. This is Larry De Maria, Executive Director of Investor Relations. I'm joined by Steve Blanco, President and CEO; Elyse Brody, Interim CFO; and Stephanie Sciullo, President of our Americas segment. During today's call, we'll discuss MSA's first quarter financial results and provide an update on our full year 2025 outlook.

Before we begin, I'd like to remind everyone that the matters discussed during this call may include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, but are not limited to, all projections and anticipated levels of future performance.

Forward-looking statements involve a number of risks, uncertainties and other factors that may cause our actual results to differ materially from those discussed today. These risks, uncertainties and other factors are detailed in our SEC filings. MSA Safety undertakes no duty to publicly update any forward-looking statements made on this call, except as required by law.

We have included certain non-GAAP financial measures as part of our discussion this morning. The non-GAAP reconciliations are available in the appendix of today's presentation. The presentation and press release are available on our investor relations website at investors.msasafety.com.

Moving on to today's agenda. Steve will first provide a business update and strategic actions from the first quarter of 2025. Elyse will then review our financial performance and 2025 outlook. Steve will then provide closing remarks and open the call for your questions.

With that, I'll turn the call over to Steve Blanco. Steve?

Steven Blanco - MSA Safety Inc - President, Chief Executive Officer, Director

Thanks, Larry, and good morning, everyone, and thank you for your continued interest in MSA Safety. I'm on slide four. Our team executed well against a dynamic operating environment to begin 2025. Financial results for the first quarter exceeded our original expectations while delivering solid free cash flow generation. Higher sales were primarily driven by strong demand across detection and partnering with our customers to accelerate certain shipments in consideration of tariffs.

Operating margins declined year over year due to gross margin pressure, largely from transactional foreign currency headwinds, which was partially offset by lower SG&A, pricing and favorable mix. Overall demand was resilient across our product categories as evidenced by a healthy order pace in the first quarter. We've also seen stable order trends in April.

Sequentially, backlog increased in line with historical trends and remains within normalized levels. First quarter orders included the award of a \$10 million breathing apparatus contract from the Orange County Fire Authority in Southern California.

The order is expected to be delivered this year, though the exact timing is still being worked out. This marks a key competitive conversion and builds on the previously announced wins in Southern California, such as with our customers in LA City and LA County.

Moving to our product categories. Sales in fire service were down high single digits year over year, primarily due to the challenging year over year comparable in the Americas segment. This included the remainder of the first tranche of the U.S. Air Force order.

International growth was up double digits organically in the first quarter on SCBA deliveries in Asia Pacific. Excluding the impact of the U.S. Air Force, fire service on an organic basis was up low single digits. Mid-teens growth in detection was supported by expansion in fixed and portable gas detection categories across both segments.

Industrial PPE sales were up 3% organically. Within the category, growth in head and fall protection was offset by contraction in other PPE. In the first quarter, we delivered reported sales growth of 2% or 4% organically, while delivering adjusted earnings growth per share of 4%.

Despite the tariffs and macroeconomic uncertainty, we remain encouraged by the positive long-term trends in industrial safety technology, our innovation pipeline and the overall diversification of the business. Now turning to slide five.

While the operating environment has become more uncertain since we last reported in February, we remain focused on advancing our Accelerate strategy and delivering long-term profitable growth aligned with our 2028 financial targets.

I'd like to highlight key year-to-date strategic and commercial progress. First, we continued to extend our innovation-led leadership in our product categories. As I mentioned earlier, we saw excellent growth in detection and remain well positioned for continued above-market growth in fixed and portable devices. Within portable gas detection, we continue to see momentum in our connected MSA+ offerings and the io4 gas monitor, which grew substantially again this quarter. I'm pleased to note that over half of our MSA+ customers continue to be new. In the fire service, we continue to navigate the 2025 National Fire Protection Association, NFPA, standard change cycle by introducing innovative, industry-leading products and solutions.

The Orange County order I mentioned earlier is an excellent example of our innovation in action. Key factors contributing to our success included connectivity features, integrated communication capabilities and our integrated thermal imaging camera.

I recently attended the Fire Department Instructors Conference, or FDIC, in Indianapolis, and it was a pleasure to interact with our customers, channel partners and the MSA Fire Service team. Building on the momentum from our successful launch of our new Cairns 1836 Fire Helmet last year, we introduced the G1 SCBA XR Edition and the new Globe G-XTREME PRO turnout gear jacket at this year's show.

In addition, with the NFPA standards change, the XR Edition features many elements outlined in the 2025 standard, allowing our customers to replace now rather than waiting. Customer feedback has been positive as we continue to advance our mission of safety in the fire service.

Now let's talk about tariffs for a moment. They've been a bit of a moving target. While it's generally our strategy to manufacture as much in region for region [as possible] (added by company after the call), we have a global supply chain and some cross-border material flows. We're evaluating the potential impacts in this rapidly evolving situation while considering our best long-term strategic path.

To quantify this, based on the current tariff situation, about 15% of our cost of sales is now subject to tariffs with about a third of that coming from China. To mitigate the impact, we implemented targeted price increases in April with further adjustments contingent on the evolving tariff rates. These could take several months to work through the backlog.

Second, our teams are also leveraging the MSA Business System, MBS, to drive productivity savings through sourcing initiatives, supply chain and manufacturing initiatives, and value engineering efforts, among other actions. While we anticipate some tariff headwinds, we're working diligently with our customers and internal teams to mitigate the higher input costs as much as possible.

From a capital allocation perspective, the team amended and increased the size of our Revolving Credit Facility to \$1.3 billion in April, ensuring we're well positioned to execute our growth initiatives. We remain disciplined in our approach to M&A as we continue to evaluate our actionable pipeline for inorganic growth opportunities that meet our strategic and financial targets.

Now I'd like to turn the call over to Elyse. Elyse?

Elyse Brody - MSA Safety Inc - Interim Chief Financial Officer

Thank you, Steve, and good morning, everyone. We appreciate you joining the call. Let's start on slide six with the quarterly financial highlights. First quarter sales were \$421 million, an increase of 2% on a reported basis and 4% organic over the prior year, which includes mid-teens growth in detection and a low single-digit increase in industrial PPE, partially offset by a high single-digit contraction in fire service. We had positive contributions from volume and pricing and currency translation was a 2% headwind to overall growth, primarily on the Brazilian real, Mexican peso and the euro.

Order pace remained healthy in the first quarter, and we continue to see a stable order pace so far in the second quarter. While macro and geopolitical conditions have become increasingly difficult to predict, we have generally seen resilient market conditions to date. Consistent with seasonal patterns, our quarterly book-to-bill was above one.

Gross margin in the first quarter was 45.9%, down 140 basis points from last year. Gross margin was impacted by transactional foreign exchange headwinds and inflation, which was partially offset by price, higher volume and favorable mix.

We expect FX pressure on gross margins to continue in the second quarter, mostly due to Latin American currencies. GAAP operating margin was 18.5%, with adjusted operating margin of 20.8%, down 50 basis points from a year ago on the contraction in gross margins, partially offset by effective cost management and discrete items within SG&A.

Quarterly GAAP net income totaled \$60 million or \$1.51 per share. On an adjusted basis, diluted earnings per share were \$1.68, up 4% from last year. The increase was mainly due to revenue growth, lower SG&A and lower interest expense due to lower debt and interest rates.

Now I'd like to review our segment performance. In our Americas segment, sales decreased 1% year over year on a reported basis but were up 1% on an organic basis as strong growth in detection and mid-single-digit growth in industrial PPE was offset by a contraction in fire service.

Adjusted operating margin was 26.8%, down 240 basis points year over year. Margin contraction was mainly due to transactional foreign currency headwinds in Latin America and inflation, partially offset by lower SG&A and mix.

In our International segment, sales increased by 9% year over year on a reported basis or 11% organic. Double-digit organic growth in detection and fire service was countered by a low single-digit contraction in industrial PPE.

Currency translation posed a 2% headwind in the quarter. Adjusted operating margin was 14.6%, 310 basis points above last year due to double-digit organic revenue growth, favorable mix and SG&A leverage.

Now turning to slide seven. Free cash flow was \$51 million, representing a conversion rate of 86%. Earnings growth and lower variable compensation payments drove 29% year over year expansion. We returned value to shareholders through \$20 million in dividends and \$10 million of share repurchases, invested \$11 million in capital expenditures and repaid \$7 million of debt.

Steve mentioned that we recently amended and resized our Revolving Credit Facility up to \$1.3 billion. This strategic action provides ample liquidity for investment in future growth initiatives aligned with our Accelerate strategy. Net debt at the end of the quarter was \$331 million, including cash of \$171 million.

Adjusted EBITDA for the trailing 12 months is \$470 million or 25.9% of net sales. We ended the quarter with net leverage of 0.7 times. Our balance sheet provides capital allocation optionality to invest in our business and return value to shareholders.

Let's turn to our 2025 outlook on slide eight. We maintain our low single-digit full year organic [sales] (added by company after the call) growth outlook and have made a solid start in 2025. The business remains healthy, supported by stable order trends into April.

Our broad diversification across products, geographies and markets, along with favorable underlying market trends in the safety industry and a strong commercial pipeline provides confidence as we move forward. In contrast, there has been increased macro uncertainty recently, and we continue to navigate the global tariff activity, which could present risk to our growth outlook. That said, you can expect us to remain agile as the operating environment evolves. For modeling purposes, our expectations for the full year are unchanged, but we realized a bit more sales in the first quarter based on order acceleration. Assumptions for below-the-line drivers for the full year remain unchanged from our fourth quarter release.

With that, I'll now turn the call back to Steve.

Steven Blanco - MSA Safety Inc - President, Chief Executive Officer, Director

Thanks, Elyse. I'm on slide nine. Before we conclude today's presentation, I want to emphasize the resilience of our business, which is enabled by the diversity of our products, end markets and geographies and add some perspective on how our company has proven to perform well during challenging periods.

Since the end of 2014, we've had the industrial recession, a recession caused by the global pandemic and unprecedented global supply chain challenges. At the same time, despite these economic pressures, MSA grew sales by mid-single digits and earnings by double-digits, on average, over the 10-year period.

MSA's mission has always been to protect workers around the world. While we're not immune to the recent events that have caused some confusion in our industries and introduced heightened macro risks, we will continue to focus on market-leading safety innovation and launching new safety solutions that solve our customers' most significant challenges. The need for safety and compliance continues to grow around the world, and MSA is well positioned to help drive the industry forward.

Moving to slide 10. To close, I'm proud of our team's execution and thank all of our associates for their continued commitment to serving our mission in the first quarter.

With that, I'll turn the call back to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Rob Mason, Baird.

Rob Mason - *Robert W. Baird & Co. Incorporated - Analyst*

Hi, good morning.

Steven Blanco - *MSA Safety Inc - President, Chief Executive Officer, Director*

Good morning.

Rob Mason - *Robert W. Baird & Co. Incorporated - Analyst*

Steve, you somewhat indirectly addressed this with just the order commentary, but I'm just curious if you drill in a little bit and speak to how project decision-making may have changed or not, I guess, during the quarter, just as tariffs came to the forefront?

Steven Blanco - *MSA Safety Inc - President, Chief Executive Officer, Director*

Thanks, Rob. Well, I'll kind of hit it two ways. We talked a little bit about some customers in North America, really in Canada, I think the biggest piece, right, Elyse? But customers enabling an acceleration of shipments for a little bit of our Q1 revenue. So, we took advantage of that, and we wanted to support them with that, which made a lot of sense.

And I think when you think of the project work, I'd probably talk more broadly that it was very strong in the first quarter. Energy, petrochem were really solid across the globe. And you saw some of that play out in detection as we continue to see that strength across the globe and the pipeline there supports a really nice year, at least is what we see going on for 2025.

Rob Mason - *Robert W. Baird & Co. Incorporated - Analyst*

So, fair to say that the acceleration that happened in the quarter was primarily detection then?

Steven Blanco - *MSA Safety Inc - President, Chief Executive Officer, Director*

I would say that, you saw the numbers on detection. We had a really nice quarter in detection, not on the accelerated customer shipments. Elyse that was a mix really similar to what our product mix is. I think actually a little heavier, about 40% in fire service, right?

Elyse Brody - *MSA Safety Inc - Interim Chief Financial Officer*

That's right.

Steven Blanco - MSA Safety Inc - President, Chief Executive Officer, Director

So, a little heavier in fire service for that accelerated piece, Rob. But what I'm talking about is the ongoing demand cycle and what we saw in Q1, yeah, I'd say detection is really leading the charge.

Rob Mason - Robert W. Baird & Co. Incorporated - Analyst

Yeah. And then, Elyse, any way to tease out what a local currency gross margin would have been? Just help us understand the magnitude of the transactional headwinds.

Elyse Brody - MSA Safety Inc - Interim Chief Financial Officer

Rob, good morning, thanks for the question. The biggest impact on gross margins in the quarter was from FX, and that's primarily on the Latin American currencies. So, it's a meaningful impact when you look at the overall gross margin.

And based on where rates are today, that continues into the second quarter. We also had in the first quarter, a higher level of business shipped from the 2024 price book. And as we move forward, that's behind us now. So, as we look to the second half, we would start to see the impact of the tariffs in the second half as well as the mitigations that Steve talked about.

Rob Mason - Robert W. Baird & Co. Incorporated - Analyst

Very good. Well, I'll hop back in queue. Thank you.

Steven Blanco - MSA Safety Inc - President, Chief Executive Officer, Director

Thanks, Rob.

Elyse Brody - MSA Safety Inc - Interim Chief Financial Officer

Thank you.

Operator

Ross Sparenblek, William Blair.

Ross Sparenblek - William Blair & Company, L.L.C. - Analyst

Hey, good morning guys.

Steven Blanco - MSA Safety Inc - President, Chief Executive Officer, Director

Good morning.

Ross Sparenblek - *William Blair & Company, L.L.C. - Analyst*

That was some strong momentum in the detection business. Just trying to maybe parse out the fixed versus portable growth if we could? I know portables have been growing around 40% on a two-year stack. But then again, we did have some second half 2024 order slippage on the fixed side. Just any way you can help us kind of conceptualize where those ended up?

Steven Blanco - *MSA Safety Inc - President, Chief Executive Officer, Director*

Thanks, Ross. For both fixed and portables, we had some really nice incoming and performance. Certainly, fixed was a little softer in the fourth quarter, as you noted. But we had double-digit incoming for detection overall. And when you look at the performance we had across that business, I'd come back to this Accelerate strategy we talked about at the Investor Day.

When you think about what we've done here and where we're headed, the initiatives that we've delivered on have really played out. Fixed just tremendous business performance and pipeline, as I was saying earlier to Rob, across the energy segments globally.

And portables, we're seeing a similar story. Now the nice thing about portables, certainly, we've seen it across the entire portfolio. As I said, we've got this excellent combination for customers to choose from between the traditional detection as well as our MSA+ connected device. But the growth was pretty much, I'd say, level between the two, between the traditional and the connected on an absolute basis. So, that just gives you an idea of the percentage on the connected. It's really doing well.

Ross Sparenblek - *William Blair & Company, L.L.C. - Analyst*

Okay. So, nothing really to call out that would kind of change this run rate looking into the second quarter and beyond?

Steven Blanco - *MSA Safety Inc - President, Chief Executive Officer, Director*

We're expecting detection to be a real nice player for 2025. It was a super strong quarter. I know the comps in the second quarter are going to make that a little tougher certainly. But we are expecting 2025 to be really good. Double digits is a little aspirational, maybe, but certainly, our numbers tell us high single digits is achievable.

Ross Sparenblek - *William Blair & Company, L.L.C. - Analyst*

Absolutely. And then maybe just one last one here. Just putting a finer point on some of the moving parts. I believe you called out a tariff pull-forward. Second quarter has this \$40 million backlog headwind. And then I think there was an International industrial PPE from the second half that was pushed out for ballistic helmets. I know there's a lot to unpack, but I mean, can you maybe just help us size any of those as we think about where the starting point is for the second quarter?

Steven Blanco - *MSA Safety Inc - President, Chief Executive Officer, Director*

Well, I'll let Elyse take the second half of this. I think the second quarter, you talked about the comps, that's a challenge. The FX, certainly the exchange, that's going to play out a little more in this quarter as we saw in the first quarter. Those are two pressure points, certainly, we'd call out. Obviously, as we look longer into the year, some of those kind of go away.

But tariffs don't. Frankly, when you think of the tariff impact, you're really not going to see much of an impact in the first half. We implemented a targeted price increase in April. We'll have further adjustments contingent on the evolving rates. But as you know, it takes several months for that to work through the backlog.

And so the impacts of the tariffs and the respective pricing or cost actions we take are going to play out more so in the second half. But from a demand perspective, I think you're right, the comps are tough. And certainly, the FX. Elyse, anything else you want to add to that?

Elyse Brody - MSA Safety Inc - Interim Chief Financial Officer

Sure. Good morning, Ross. Building on what Steve said, just to unpack a few of the areas you mentioned, the pull forward in Q1 was just under \$10 million and most of that in Americas. As you had mentioned, the backlog comp in Q2, we converted \$40 million of backlog in the second quarter last year. That was the quarter where we really got back to a normalized backlog level. So, we had really strong orders in the first quarter, high single-digit growth, but we are up against that backlog comp heading into the second quarter.

And then as you look to the second half, you had mentioned ballistics. We're very pleased that we got a nice order in ballistics in Europe. So we should see that support industrial PPE in the International segment in the second half.

Ross Sparenblek - William Blair & Company, L.L.C. - Analyst

Perfect. Very helpful, guys. Thank you.

Steven Blanco - MSA Safety Inc - President, Chief Executive Officer, Director

Thank you.

Elyse Brody - MSA Safety Inc - Interim Chief Financial Officer

Thank you.

Operator

Jeff Van Sinderen, B. Riley FBR.

Jeff Van Sinderen - B. Riley Securities - Analyst

Hi, good morning, everyone. I wanted to see if we could drill down on a couple of things. Possible to quantify how much was pulled forward into Q1? And then any color on what specifically that consisted of? I know you did touch on kind of various things more generally, but just wondering specific product there.

And then obviously, you had the anniversary of the Air Force but just as we think about Q2 and the remainder of the year, how that pull forward might impact?

Steven Blanco - MSA Safety Inc - President, Chief Executive Officer, Director

Sure, Jeff. Elyse, do you want to capture that?

Elyse Brody - MSA Safety Inc - Interim Chief Financial Officer

Sure, Jeff. So, the pull forward in the first quarter was just under \$10 million. And as I mentioned before, it's a pretty similar mix to the overall mix of our business, maybe a little bit heavier weighted to fire service.

Jeff Van Sinderen - B. Riley Securities - Analyst

Okay. That's helpful. And then I realize this is a tough subject given the fluidity of the situation but as you're thinking about the potential tariff impact in supply chain areas that could impact you if trade deals don't materialize in a favorable way, could you speak more to mitigation efforts and help us understand a little more about what is controllable at this juncture versus what is not? And then, just how you're generally evolving your supply chain?

Steven Blanco - MSA Safety Inc - President, Chief Executive Officer, Director

Yeah. Thanks, Jeff. As you noted, it's got some variability right now. And as I said in the prepared remarks, we're really approaching this both from pricing and cost management. We did implement that one price increase, very targeted.

When we think about this, as I said then, we really have a nice business system. I think we're well positioned with our playbook, and we're evaluating everything here. But pricing, we have some nice pricing with our brand that we'll leverage, but we're also cognizant of the customer needs in the market and trying to minimize or mitigate as much as we can from the cost element.

I think the thing I would probably point to, you talked about the [tariff] (added by company after the call) numbers right now. But until we have clear visibility and line of sight to the longer-term tariff numbers, it's going to take some time to shake out. And that might provide or cause some short-term choppiness but I was thinking about this, and we had a similar story play out with margins in 2021 when you think about the inflation and some of the challenges we had on the supply chain side. But once that leveled out, we had a much stronger business and our playbook on the MSA Business System, MBS, side is even stronger now.

So I think you can trust over the long term that we're going to focus on what we do that's right, not reactionary, not short term in the decision making. I think I've got a great team around the world in support of our mission to our customers, and we'll continue to adjust accordingly.

So it might be a little choppy, but when we get on the other side of this, I think you come back to that strategy we talked about, our Accelerate strategy, and we feel like we'll be in a good place.

Jeff Van Sinderen - B. Riley Securities - Analyst

Okay, good to hear. Thanks for taking my questions. I'll take the rest offline.

Steven Blanco - MSA Safety Inc - President, Chief Executive Officer, Director

Thank you.

Operator

Mike Shlisky, D.A. Davidson.

Mike Shlisky - D.A. Davidson & Company - Analyst

Good morning. Thanks for taking my question.

Steven Blanco - MSA Safety Inc - President, Chief Executive Officer, Director

Good morning.

Elyse Brody - MSA Safety Inc - Interim Chief Financial Officer

Good morning.

Mike Shlisky - D.A. Davidson & Company - Analyst

Steve, I wanted to follow up on that last comment that you just made to the last question. The cost reduction actions that you've been taking here, if tariffs end up being resolved or eventually are lower than where they are today, do you expect to actually keep some of those gains? Are these potentially long-term margin gains? Or does a lot of this kind of revert back if tariffs revert back?

Steven Blanco - MSA Safety Inc - President, Chief Executive Officer, Director

Yeah. Thanks for the question. I would say it depends. But on the cost side, we're looking at these as long-term strategic initiatives from a cost and productivity side. So, we expect that whatever we're able to take action on will continue to play out for the long term.

Pricing, we're going to have to measure the market. And that's one of the reasons I talked about the choppiness. It's not our plan to price to the customer and then three months later, if the tariffs disappear or there's a trade agreement, then peel that back. So, we're trying to be strategic about how this looks to our customer based on the long term. But certainly, cost, we expect those to hold.

Mike Shlisky - D.A. Davidson & Company - Analyst

Okay. Great. And then maybe secondly, just taking a bit of a step back, does anything that you're experiencing now affect your ability to reach your 2028 targets? That's the last year of the current presidential administration. If tariffs don't get any better, if they get worse from here by maybe just a little bit, does the current environment, is it still conducive to that \$10 to \$11 EPS target? Or should we be thinking differently about that if things just don't get out of where they are today?

Steven Blanco - MSA Safety Inc - President, Chief Executive Officer, Director

Well, I'd step up and say our Accelerate strategy initiatives are on pace. The macro trends are still very, very good and we've got a great diverse portfolio. So, in our view and what we look at in our business, we're fully committed to those 2028 targets, that growth, the margin expansion over time and of course, compounding that EPS number. And we don't see that changing.

I would say that we don't know the economic environment, whether there's a growth period or some recessionary pressure. That could certainly play out in some degree if tariffs stayed at this current level. But I think we're well positioned, Mike, to make sure that we achieve those targets. We feel really good about where we're at. This year is going to be kind of choppy, as we said, as many are talking about, and we'll be in a really good position to manage through this and come out on the other side.

Mike Shlisky - *D.A. Davidson & Company - Analyst*

Thank you. I'll pass it along.

Operator

There are no more questions in the queue. This concludes our question-and-answer session. I would like to turn the conference back over to Larry De Maria for any closing remarks.

Lawrence T. De Maria - *MSA Safety Inc - Executive Director, Investor Relations*

Thank you. We appreciate you joining the call this morning and for your continued interest in MSA Safety. If you missed a portion of today's call, an audio replay will be made available later today on our Investor Relations website and will be available for the next 90 days. We look forward to updating you on our continued progress again next quarter.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.

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