

**Mid-America Apartment Communities, Inc.**

**NYSE:MAA**

# **Company Conference Presentation**

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# Table of Contents

Call Participants	.....	3
Presentation	.....	4
Question and Answer	.....	6

# Call Participants

## EXECUTIVES

**H. Eric Bolton**  
*Chairman, President & CEO*

## ANALYSTS

**Jeffrey Alan Spector**  
*BofA Merrill Lynch, Research Division*

# Presentation

## **Jeffrey Alan Spector**

*BofA Merrill Lynch, Research Division*

Good morning. This is Jeff Spector. I head the BofA REIT team. With me this morning is my colleague, Alua Askarbek. This is the Mid-America MAA roundtable. Thank you to the MAA team for allowing us to host today. I'm just going to quickly introduce MAA and its Chairman and CEO, Eric Bolton, and then I'll turn it over to Eric.

Just a reminder for those on the call, we want to make this as interactive as possible. Feel free to enter your questions into the Veracast software system, and I promise to do my best to ask all of the questions.

MAA focuses on acquisition, selective development, redevelopment and management of multifamily homes throughout the Southeast, Southwest and Mid-Atlantic regions of the U.S.

As I mentioned, with us today, we have Eric Bolton, Chairman and CEO. And I will now turn it over to Eric.

## **H. Eric Bolton**

*Chairman, President & CEO*

Well, thank you, Jeff, and I appreciate everyone joining us this morning.

Just by way of a brief introduction, as Jeff mentioned, we are an apartment-only REIT, focused exclusively on the Sunbelt region of the United States. We've been publicly traded for a little over 26 years, have been focused exclusively on this region of the country during that entire time. Our strategy is really built around a premise associated with the belief that our job is to deploy capital in such a fashion as to create ultimately outperformance for shareholders over a full cycle, over a long period of time. And we think that the REIT platform basically lends itself to creating the highest recurring quality cash flow we can to pay a steady, growing dividend, believing that's the best way over time that shareholders are rewarded through a REIT platform.

In order to accomplish that performance, we've long held the belief that our strategy needs to orient towards the markets where we feel like the demand for apartment housing is likely to be the strongest and the steadiest through the full cycle, which has caused us to always orient our investing towards these Sunbelt markets.

In an effort to take some of the cyclicity over a full cycle out of our performance, we then work actively to diversify our holdings across the Sunbelt region. We have a fairly unique diversification strategy. We're in 13 states across this region and invested in about 33 different markets, intentional diversification across both large markets and then submarkets within those large markets, places like Dallas, Atlanta, Phoenix, Denver, as well as we also specifically target a number of more mid-tier markets that we believe offer sort of different performance dynamics over a full cycle market such as Nashville; Austin; Greenville, South Carolina; Charleston, South Carolina. And we find that, that combination of both large and more mid-tier markets offers a good balance through a full cycle and more steadiness, if you will, in terms of how we perform over the cycle.

We also have -- in the presentation that we have filed, on Page 5, you see a little bit about our footprint and our diversification. We are diversified in submarkets. We have a bulk of our concentration in more suburban locations as well as sort of neighborhoods within usually the perimeter loop of most cities. We do not have significant exposure to sort of the more downtown CBD districts in the markets we do business. We have some exposure there, but most of our product is more spread out from the immediate downtown areas, diversified in price point, and most of our product tends to be the more traditional garden-style apartment product, open breezeway, anywhere from 2 to 4-story walk-up. We have some mid-rise, which tends to offer probably 4 to 5 stories, structure parking, interior hallway, that kind of thing.

So that's really our strategy in terms of how we allocate capital. We also -- as was mentioned, our growth is really through -- largely today through development processes. We have long been active in the acquisition market and remain active in that regard in terms of looking at opportunity. It's been very difficult to execute much the way of acquiring existing stabilized assets. In this environment, cap rates continue to be very compressed. I would tell you based on what we're seeing, cap rates have probably come down anywhere from 10 to 20 basis points in most of our markets over the course of this year. Private equity has just an incredible appetite for multifamily housing, particularly in this very low interest rate environment and very attractive financing environment.

So the bulk of our growth is being accomplished through both in-house development operation that we have as well as a prepurchase program that we have up and running, where essentially we contract with merchant builders who have projects ready to go. We come in and provide the capital, if you will, for them to build a project. And then upon stabilization, we wind up taking them out totally, and we own 100% of the asset. We have on Pages 13 and 14 in our presentation a little bit of information on our external growth and what we're focused on there.

The final point I'll make, and I'll open it up for questions, is our story, as I mentioned, we've been public for 26 years. We've historically had been viewed as somewhat of a defensive play in the sector. You'll find during past recessions that our performance has tended to hold up better than most in the sector. We have continued to demonstrate that again during this most recent downturn that we're experiencing currently. You look at our collections performance, which is recapped on Page 3. You'll see that our collections have remained very strong despite the pressure surrounding COVID and unemployment and so forth. The trends continued to show improvement through July and August, and early September trends are very much on track with the trends that we saw earlier in this quarter. So collections performance has been strong and continues to be strong.

And then on Page 4, a little bit insight of what's happening with our pricing trends and rents coming out of the second quarter, where we did see there during the months of late March and April, early May, we did see a dip in leasing activity and saw the most pressure take place during that quarter. But really beginning in June and over the last several months, we've really begun to see a noticeable recovery beginning to shape up in terms of rent growth trends. And you see there on Page 4 that our blended pricing continues to be positive. We're continuing to capture improving performance on both renewal leasing as well as new lease pricing.

So we're -- we believe in a lot of ways that sort of the worst of COVID pressures are behind us. Now we do typically see, as we get into the holiday season and the winter months, leasing activity tends to slow down a little bit. We see no reason to believe that this year will be any different. So we'll probably see a little seasonal slowdown in leasing activity as we get into November and December. Mostly, that shows up in new lease pricing. We would expect renewal pricing to remain fairly steady over the winter, somewhere, call it, at 4%, 4% to 5% range. We would expect to continue to hang in there in that range. Occupancies continue to hold up quite well between 95.5% to 96%. And again, we would expect to continue to hold up.

So overall, we clearly believe we're in a recovery mode at this point. The trends continue to show improvement. All of our properties are open. All of our staffs are back in place, including our corporate offices. So we're back to somewhat normal operating conditions at this point.

So with that, Jeff, I'm going to stop and open it up for whatever questions we may have.

# Question and Answer

**Jeffrey Alan Spector**

*BofA Merrill Lynch, Research Division*

That was excellent. And I hope

[Technical Difficulty]

Can you hear me?

**H. Eric Bolton**

*Chairman, President & CEO*

Yes.

**Jeffrey Alan Spector**

*BofA Merrill Lynch, Research Division*

Okay. Sorry. I was talking, but maybe there was an issue with my line. I was just saying, that was great. Thank you. I hope everyone had access to the slides. That was very helpful. [Operator Instructions]

I will get things started. So Eric, as you mentioned, MAA has had exposure to the Sunbelt for a long period of time. Can you talk -- for those that are not as familiar with, I guess, population growth and trends, I guess, what's been happening over -- this is not a new phenomenon, people moving to the Southeast. So really, what's been going on in the last 5, 10 years? And what are you -- I guess what are you currently seeing when you talk about demand? And on the go forward, when you think about your markets, why are you well positioned?

**H. Eric Bolton**

*Chairman, President & CEO*

Well, as you mentioned, we have seen the Southeast Sunbelt markets over the last number of years have historically always enjoyed generally more job growth, more robust job growth and, as a consequence, more robust population growth than many other markets and regions of the country. And those trends have been there for some time. We had noticed over -- going into COVID, I mean, the couple of years prior to earlier this year, we have begun to see some acceleration of those trends as a consequence of concerns that were developing -- growing concerns developing, particularly some of the higher-cost coastal markets surrounding just the increasing cost of living, the high housing cost, increasing taxes and other just obligations surrounding -- financial obligations surrounding living in those higher cost markets, seeing that it continues to drive more employers to relocate and bring their operations to these lower cost Sunbelt markets where labor cost and housing costs are not as much of a problem.

And then, of course, in the last -- particularly in the last year, we've noticed that those trends seem to be accelerating as we also continue to see growing concerns developing, specifically targeting multifamily housing and rental housing in a number of these markets with conversations building surrounding rent control and other practices in those markets. And so as a consequence of all those pressures, we think that -- and then more recently, of course, we have all the issues more -- as I say, more recent surrounding COVID and the concerns surrounding high-density lifestyle, high-density living arrangements, some of the challenges regarding some of the social issues that we're facing, all of which seem to sort of create a little bit more pressure in some of these bigger markets.

We've had -- when you look at our move-ins that we have, the vast majority of the move-ins that we experience come from people moving within the Sunbelt if you will. But when you look at our total move-in activity, historically, 8% to 10% of our move-ins have come from people moving from outside of the Sunbelt into the Sunbelt region and into our properties. We see those trends likely to accelerate and pick up. We certainly are now trending towards the upper end of that range in terms of the moving activity that we're experiencing.

And as you might imagine, a lot of the moving that we're seeing into the Sunbelt, that is coming from outside of the Sunbelt. The folks are coming from California, from New York, New Jersey, Illinois areas, tend to really dominate where people are coming from. Markets that are really benefiting from this transition, particularly some of the higher-tech markets, we're seeing good activity in Phoenix; in Denver; Raleigh, North Carolina; Dallas; Nashville; Austin, Texas.

These markets are very attractive places to live, very affordable. Employers are bringing jobs there, particularly some of the higher-paying tech jobs.

So I think that as this recovery cycle eventually begins to take hold over the next 2 or 3 years, I'm optimistic that these Sunbelt markets are going to really continue to show outperformance in this regard with outsized demand coming into these markets. And hopefully, we're in a great position to benefit from that.

**Jeffrey Alan Spector**

*BofA Merrill Lynch, Research Division*

And are you happy with the current footprint, the markets? And then as -- if this trend continues, the dynamic trend, I mean, could you see a rise in demand in the downtowns in the Southeast? Like could that be a strategy shift, or no, you really prefer to be in -- around the loop or in the suburbs of these Sunbelt cities?

**H. Eric Bolton**

*Chairman, President & CEO*

Well, I think that we like the footprint. We like the strategy. It's been consistent for 26 years. The markets that we are in are all markets that we like and would continue to fill out in. We are fairly recent into the Denver market. So we are very focused on Denver as a growth market. We have another property under construction there. Currently, we've got another land site already owned that we may be able to get started on next year. We very much like the Phoenix market as well. Again, we have a property -- a new property that just begun leasing there last week and another site under contract. Raleigh, North Carolina, similar. So we like the footprint, don't really plan to change the strategy.

The one market that we are not in, that we are targeting to go into next year, we're in conversations currently with developers is Salt Lake City. We like that market a lot, believe that it offers some great growth dynamics. It has -- it fits very well with our strategy and has continued to hold up well during this most recent recession. And we also like the fact that no other REITs are there and as is the case with the number of the markets that we are in. So it allows us to continue to build out, if you will, our differentiation.

I will tell you, to your point about the suburbs or the loop properties versus the downtown, we will probably always have a higher weighting towards the non-CBD submarkets. We just believe that in the Southeast markets, where mass transit is not as readily available and you just don't have the same sort of living dynamics, and you have a lot of -- you go to markets like Dallas and Charlotte and some of these bigger markets, Atlanta, you see a number of the major employers that are not necessarily downtown. And so it's just a different lifestyle. These non-CBD submarkets offer some terrific amenities and terrific appeal. We will maintain some level of mix of that.

We've got -- of our current pipeline of projects under construction, we have one in a downtown area. We're currently building a property in downtown Orlando, high-rise there. But everything else in the pipeline is more satellite city or more suburban. In some of these markets like in Dallas and Atlanta, Charlotte, you see this where we make reference to what we call satellite cities. And so in a market like Dallas, you're talking about a city like McKinney, which is a separate incorporated municipality. The suburb market area of Dallas has got its own police force, own school system, great quality of life. And what we find frankly in a lot of these satellite city locations that there's some pretty high barriers to frankly new supply, construction. A lot of these cities are very restrictive about the numbers of apartments they will allow into the market and -- because oftentimes, the schools are very, very attractive. You've got new retail and other aspects that create a lot of draw to the areas.

And most of what we're doing in these markets, we're creating a very high-end kind of product there in those markets as well. So as a consequence of that, we very much will probably have continued higher weighting towards the non-CBD submarkets as part of our strategy across this Sunbelt.

**Jeffrey Alan Spector**

*BofA Merrill Lynch, Research Division*

And does this mean your renter profile, is it different than your peers? Has that changed over the years? Are you seeing any changes right now?

**H. Eric Bolton**

*Chairman, President & CEO*

We have a slide in the presentation, on Page 7, that gives you some pretty good insight into our profile. I would tell you that when you look at our profile or you look at our portfolio, the average rent in our portfolio is just under \$1,300 a month. It is the lowest average rent portfolio as compared to the other 6 major apartment REITs.

Now the majority of that difference is a function of the region of the country where we do business in. It just is cheaper and less -- real estate is less expensive in our region of the country. But having said that, the average annual income of our resident profile is just over \$75,000 a year, very good, if you will, standard of living in our Sunbelt markets. The rent-to-income ratio on average in our portfolio is around 20%, 21%, again, very affordable. And we think, again, as compared to our peers, you're going to see probably a higher concentration of CBD downtown, more expensive rents, smaller unit kind of mix is more often going to define some of the other portfolios versus ours. But again, what we're attempting to do is we're trying to reconcile it back to this overreaching strategy of creating stability of cash flow through a full economic cycle. And we believe that the product that we have provides -- it appeals to a broader segment of the rental market. It's more accessible to a broader segment of the rental market and therefore brings stability and performance particularly during downturns. And so we think that there is some difference in the profile of the product we have.

We have, by all accounts, we feel like, a very high-quality resident profile, as evidenced by extremely strong collections performance, frankly better than any of the other apartment REITs during this downturn. And so we think that's a strong statement about the quality of our resident profile.

**Jeffrey Alan Spector**

*BofA Merrill Lynch, Research Division*

And to confirm, for example, Salt Lake City, you mentioned specifically in merchants -- talking to merchant builders. So you won't do, you don't do ground-up development. It's strictly -- as you mentioned in your earlier remarks, I guess you'll work with the merchant builder that's looking to sell right before the property needs to be leased up.

**H. Eric Bolton**

*Chairman, President & CEO*

We do -- actually, we do both. We do -- we have an in-house development team in operation. And if you look on Page 14, we have our current pipeline of properties underway. We have 6 projects that are in active construction to develop right now. And to give you a sense of it, 4 of those 6 properties, we are building ourselves in-house, where we are acting as the developer. 2 of those are prepurchase arrangements, where we're working with a third-party builder. We expect to see probably this pipeline expand over the next year. We are growing -- we're seeing growing evidence that, particularly in the area of -- with some of the smaller merchant builders that access to financing and access to capital is a little bit more restrictive.

The Fannie and Freddie, the agencies and the commercial banks are a little bit more restrictive in what they're able to do, what they're willing to do from a financing perspective on new development at the moment. And so we're finding more opportunity to come in with our balance sheet and with capital to support some of these projects that we like a lot and can add to our pipeline.

So I would expect to see this pipeline expand out to another 4 or 5 projects over the course of the coming year. It will probably be pretty much evenly split between projects that we'll do ourselves in-house versus prepurchase, working with a third-party builder. We do think that supply level, new supply levels, construction levels across a number of our markets will continue to remain fairly high through probably midway next year, where we do expect new starts to start to show some moderation next year, particularly in the back half of next year, which sets up for, we think, very strong leasing fundamentals as we get to the very back half of next year and into 2022.

In 2023, we think that, assuming continued recovery in the broader economy and the employment markets, which I think is a reasonable assumption particularly in our region of the country, that it sets up for some very strong leasing dynamics over the next 2 or 3 years.

**Jeffrey Alan Spector**

*BofA Merrill Lynch, Research Division*

Digging -- I guess digging a little bit deeper into supply. When you -- I guess, when we think about the last, I don't know, 5, 10 years, your experience in the Sunbelt Southeast, I mean, one of the key questions we always get is, are there less barriers to entry. So I guess for those that don't own your stock or thinking of owning the stock, is that -- clearly, the

demand is very strong. Are you always -- are you typically seeing a lot of good healthy supply each year and just demand has been very strong? Or is it false, that there are some barriers to entry and it's not so easy to build in the Sunbelt?

**H. Eric Bolton**

*Chairman, President & CEO*

I would tend to suggest that the assumption that it's just uniformly a lot easier to build in Sunbelt versus the coastal markets, I think that concept is way overstated. You go back over the last 5 years, some of the most overbuilt markets that we've seen are the so-called high-barrier coastal markets, New York -- I mean there are a number of markets that got honestly oversupplied that were not in the Southeast over the last 5 years.

And as I would also point out, as I was mentioning a moment ago about satellite cities, we see some of the ability sometimes to build in highly desirable submarkets in some of these Southeast markets can be as restrictive and hard to get through as anything you can imagine in a coastal market or in a downtown area. So I would tell you that, broadly speaking, the notion that supply -- that these Southeast markets are at a materially higher risk of being oversupplied is a worry that's way overstated. Supply by itself is not necessarily a problem. It just depends on whether or not there's enough demand there to absorb it. And as you point out, the demand is quite strong across this region of the country. So despite the fact that -- and the other reality, of course, is supply comes in cycles. It comes in waves. And we are heading into this pandemic as the interest rate market continued to -- or interest rate trends continued to come down, we did see and have seen developers really crank up over the course of 2019, 2020 early and tee up a lot of projects. And so a lot of that product is coming online now, and we'll work through that.

But so supply is -- obviously, it's just -- it's a hit or miss, and it depends on the submarkets. It depends on -- and that's why we actively work to diversify not only in the number of markets but also in the submarkets that we are in.

But the other thing that we're very conscious of is trying to keep our product priced at a reasonable level. Most of this product coming into the market today is very high-end product, materially more expensive than the rents that we have on our portfolio. And of course, so we think that protects us to some degree from some of the supply pressure. We're not completely insulated from it, but we have some advantages in that sense.

The other thing, of course, is that at over 100,000 apartments, 103,000 apartments, we have scale. We have certain efficiencies. We have capabilities frankly from an operating perspective that most operators in our region of the country don't possess. I mean whether -- in terms of the number of units that we own and manage, we're the largest owner manager of apartments in the country. And that creates certain advantages for us from an operating perspective, particularly in the markets where we do business, which tend to be more dominated by smaller owner operators.

So supply is not something we've ever really worried about to the extent that we thought it was a real risk to our strategy. Supply is what it is. We fight through it when it happens. We have diversification and certain capabilities that allows us to push back against it and weather those pressure points without material, if you will, risk and deterioration of the company. But broadly speaking, all markets can get built in, and all markets can get oversupply from time to time.

**Jeffrey Alan Spector**

*BofA Merrill Lynch, Research Division*

Great. And then Slide 8, again, another key question we get on the Southeast. I just think it's very interesting the -- on move-outs. Move-outs to buy a home or move-out to rent a home. Can you talk about this slide a little bit more?

**H. Eric Bolton**

*Chairman, President & CEO*

Yes. That's the other sort of persistent worry that applies to the Southeast markets, is the fact that single-family housing is more affordable relative to other regions of the country, which is obviously true. Rents are also lower in this region of the country than other regions of the country as well. But again, we have never had what I would consider a worry about single-family housing, whether that be for sale or for rent.

As shown on Slide 8, our resident turnover has continued to trend down over the last 5 years, and we're at historic lows at this point. But what's remained very consistent in our portfolio really for the last 20 years is that our -- if you look at the reasons that people move out of our apartments, about 19% to 20% of the reason that -- of the move-outs that occur are people leaving us to go buy a house. And only about 6% of the move-outs that we have occur because people are going to rent a single-family home.

And those numbers, those percentages as a percent of our move-out, have remained very, very consistent for a long period of time. The only time that move-outs to single-family home buying got elevated was back in 2006, 2007 time frame, leading up to the great financial crisis, where mortgage financing was completely out of control, at that point where no down payment, in some cases, even no job was required to get a mortgage, we saw some pressure. But I will point out, even during that period of time, because the single-family housing market was so strong and such a boon to the economy, we were actually getting very good internal earnings growth, and rent growth was very strong during that period of time.

So it's a long way of saying that when you look at our demographic, that slide we're looking at a moment ago, and consider the fact that roughly about 75%, 76% of the profile that live in our properties are single. The majority are female. About 52%, 53% of our residents are female, and a vast majority are single. This is not a demographic that is going to want a single-family lifestyle. They want the amenities. They want the on-site maintenance. They want the sense of security and other things that they get from living in a multifamily, and they want the flexibility. And so we have not seen any appreciable change either over the last 5 years or in the last 6 months in terms of our resident behavior as it applies to single family. Move-outs have remained very consistent in that regard.

**Jeffrey Alan Spector**

*BofA Merrill Lynch, Research Division*

And I know we're out of time, but I -- just one quick question, then we have 3 rapid-fire questions. Cap rates, amazing. You said, I think, down 10, 20 bps over the couple of months. I guess do you expect cap rates to continue to decrease from here? I guess there's just so much capital chasing assets in your markets.

**H. Eric Bolton**

*Chairman, President & CEO*

Yes. It's -- there's -- the buyer appetite is very aggressive. Obviously, the financing environment creates some great opportunity. We just completed a 10-year bond offering, public bond offering about 3 weeks ago, 10-year bond offering, \$450 million at 1.7%. And even in our markets where cap rates have come down to -- for the kind of high-quality assets that we have in our portfolio and we're looking to acquire or build, cap rates are routinely now in the 4.5, 4 to 5 range. That's still a pretty healthy spread between -- from there to what cost of financing is today. And if you put a lot of leverage on it, you can still create cash-on-cash returns that are pretty compelling. And so I don't know if cap rates are going to go down any more or not, but I know it's very competitive right now.

**Jeffrey Alan Spector**

*BofA Merrill Lynch, Research Division*

Thank you, Eric. Very helpful. We have 3 quick questions that are meant to be one-word responses, please. First, what causes you the most concern in the near to medium term, no vaccine or taking longer than expected to get distributed; second, wave -- second COVID wave; or three, impact of job layoffs to come?

**H. Eric Bolton**

*Chairman, President & CEO*

I think the -- the second answer, the putting in the vaccine and getting it widely disseminated into society, I think that's going to take a lot longer than what people expect.

**Jeffrey Alan Spector**

*BofA Merrill Lynch, Research Division*

Okay. We'll put down number one, no vaccine or taking longer. And then question #2 is do you think the worst is behind us in terms of economic conditions, yes or no? If no, do you think that the worst will be in the fourth quarter, the first half of '21 or the second half of '21?

**H. Eric Bolton**

*Chairman, President & CEO*

I think the worst is behind us.

**Jeffrey Alan Spector**

*BofA Merrill Lynch, Research Division*

And last, which of the following real estate sectors will suffer the most long-term damage from the pandemic: lodging, malls, office or senior housing? Or would you choose cities over these real estate sectors?

**H. Eric Bolton**

*Chairman, President & CEO*

I think malls are probably going to face a tough time.

**Jeffrey Alan Spector**

*BofA Merrill Lynch, Research Division*

Okay. You could have talked to your book and said cities. We appreciate the honest feedback. Eric just -- Eric and your team, thank you so much for allowing me to moderate today. We appreciate all the participants on the line. And we wish MAA and everyone a great rest of your second day at the conference. Thank you so much, Eric.

**H. Eric Bolton**

*Chairman, President & CEO*

All right. Thank you, Jeff. Appreciate it.

**Jeffrey Alan Spector**

*BofA Merrill Lynch, Research Division*

Take care. Bye.

**H. Eric Bolton**

*Chairman, President & CEO*

Bye.

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