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## Analyst's Notes

Analysis by Joseph Bonner, CFA, November 21, 2024

**ARGUS RATING:** HOLD

- Raises FY25 guidance with fiscal 3Q results
- Snowflake provides data storage and analytics software.
- Non-GAAP diluted EPS declined 19% on 28% revenue growth in fiscal 3Q25.
- Snowflake announced several new product enhancements at its annual BUILD 2024 developer conference.
- We are raising our FY25 non-GAAP EPS estimate to \$0.73 from \$0.56 and our FY26 forecast to \$0.85 from \$0.76.

### INVESTMENT THESIS

We are maintaining our HOLD-rating on Snowflake Inc. (NYSE: SNOW), a cloud-native data warehouse company. Snowflake shares spiked on the FY25 guidance raise that came with fiscal 3Q25 results though SNOW shares remain down in 2024. The company completed a go-to-market revamp and its new product pipeline remains robust. We see Snowflake in a building phase as it invests in new product enhancements, particularly around artificial intelligence/machine learning, that are not generating near-term revenue but may begin payoff sometime in the future. As the company is new to our coverage, our estimates are fairly conservative in relation to consensus. Management is clear that product revenue growth is its key performance indicator. In addition to a turnaround in this metric, we would like to see renewed traction in the company's customer metrics and margins before considering an upgrade.

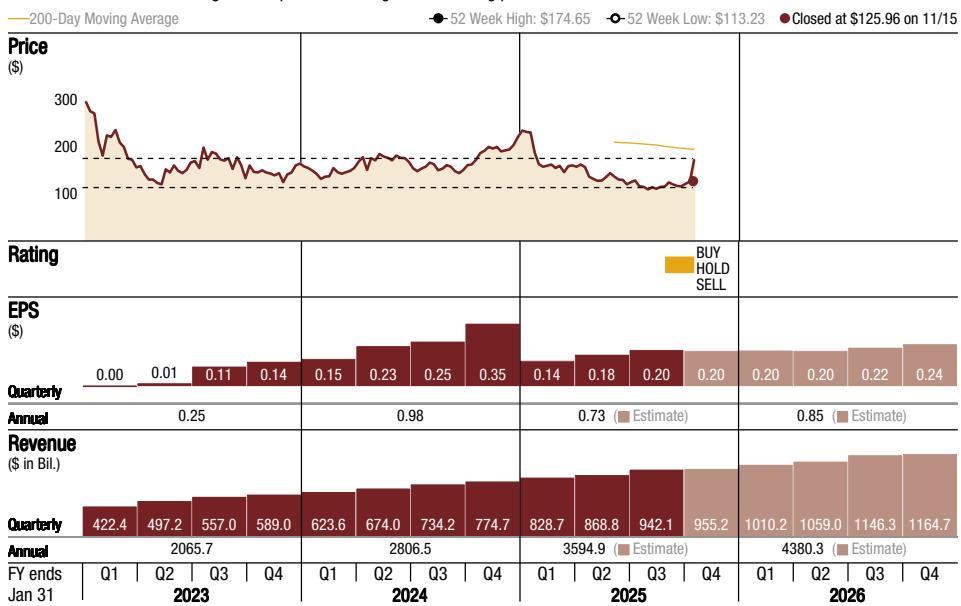
Despite a lackluster 2024, SNOW shares remain quite highly-valued relative to peers.

### RECENT DEVELOPMENTS

Snowflake reported fiscal 3Q25 results (for the period ended October 31, 2024) on November 21. With its 3Q results, Snowflake raised its FY25 guidance. The company raised Product revenue growth guidance by one percentage point to 28.6% and raised non-GAAP operating income margin guidance by two percentage points to 5%. SNOW

### Market Data

Pricing reflects previous trading week's closing price.



### Argus Recommendations

| Twelve Month Rating | SELL         | HOLD          | BUY         |
|---------------------|--------------|---------------|-------------|
| Five Year Rating    | SELL         | HOLD          | BUY         |
| Sector Rating       | Under Weight | Market Weight | Over Weight |

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 72% Buy, 28% Hold, 0% Sell.

### Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

#### Market Overview

|                     |                      |
|---------------------|----------------------|
| Price               | \$171.35             |
| Target Price        | --                   |
| 52 Week Price Range | \$107.13 to \$237.72 |
| Shares Outstanding  | 335.20 Million       |
| Dividend            | --                   |

#### Sector Overview

|                                |                        |
|--------------------------------|------------------------|
| Sector                         | Information Technology |
| Sector Rating                  | OVER WEIGHT            |
| Total % of S&P 500 Market Cap. | 31.70%                 |

#### Financial Strength

|                           |                 |
|---------------------------|-----------------|
| Financial Strength Rating | MEDIUM          |
| Debt/Capital Ratio        | 5.3%            |
| Return on Equity          | 6.4%            |
| Net Margin                | -33.0%          |
| Payout Ratio              | --              |
| Current Ratio             | 1.85            |
| Revenue                   | \$3.41 Billion  |
| After-Tax Income          | -\$1.13 Billion |

#### Valuation

|                       |                 |
|-----------------------|-----------------|
| Current FY P/E        | 234.73          |
| Prior FY P/E          | 174.85          |
| Price/Sales           | 16.82           |
| Price/Book            | 19.61           |
| Book Value/Share      | \$8.74          |
| Market Capitalization | \$57.44 Billion |

#### Forecasted Growth

|                                 |         |
|---------------------------------|---------|
| 1 Year EPS Growth Forecast      | -25.51% |
| 5 Year EPS Growth Forecast      | 6.00%   |
| 1 Year Dividend Growth Forecast | N/A     |
| Beta                            | 1.33    |
| Institutional Ownership         | 61.00%  |

**Analyst's Notes** ...Continued

shares were up 31% intraday on November 21.

Fiscal third-quarter revenue rose 28% from the prior year to \$942 million, slowing from 36% growth in 2Q24 and 33% growth in 1Q25. Management's favorite key performance indicator is Product revenue, which increased 29% and comprised 96% of total revenue. We also look at remaining performance obligation. Current remaining performance obligation (cRPO) rose 36% in 3Q25 to \$2.87 billion, accelerating sequentially for 30% growth in fiscal 2Q25. cRPO is contracted revenue expected to be recognized over the next year.

Non-GAAP operating profit declined 18% to \$59 million in 3Q25 as the non-GAAP operating margin narrowed by 350 basis points to 6.3%. Non-GAAP operating margin benefitted from the strong revenue growth and R&D efficiencies while costs related to a new office space were pushed into 4Q.

Non-GAAP diluted EPS declined 19% to \$0.20 in 3Q25 from \$0.25 in 3Q24. GAAP loss per share was \$0.98, worse than the \$0.65 loss in 3Q24. Stock-based compensation accounted for most of the difference between GAAP and non-GAAP results. Stock-based compensation was a staggering 40% of revenue in 3Q25. Most comparable companies have a rate in the teens to about 20%.

On November 20, Snowflake agreed to acquire Datavolo. Datavolo is a Tech-start up that provides a single platform for automating and managing both structured and unstructured data flows between various enterprise data sources. Snowflake expects

Datavolo to deliver a simple way for customer data engineering teams to integrate all their enterprise systems with Snowflake's platform for the purposes of unlocking data for machine learning and AI applications and analytics, and also leverage the scale, performance, and built-in governance of Snowflake's AI Data Cloud. Terms, price, and the expected date for completion of the merger were not disclosed, only that the acquisition 'is subject to customary closing conditions.'

Snowflake held its annual BUILD 2024 developer conference on November 12-15. As usual, the company announced a number of new product innovations and enhancements. As with many companies across the Tech landscape, Snowflake's developer conference provided a stage to highlight its GenAI efforts. Snowflake Intelligence is a newly announced platform to create data agents-all the rage in the current GenAI environment-in private preview. Data agents are GenAI powered semi-autonomous agents that can carry out a series of complex tasks without much human intervention. The point of Snowflake Intelligence is to enable enterprise customers to easily create data agents that allow users to 'talk to' their data using natural language and then analyze, summarize, and take action from results within a unified platform. More generally, Snowflake has deployed AI in over 1,000 customer use cases and more than 3,200 customers are using the company's AI and ML features.

Snowflake also announced the Unistore, powered by its Hybrid Tables solution, now generally available on AWS. The Unistore

## Growth & Valuation Analysis

### GROWTH ANALYSIS

| (\$ in Millions, except per share data) | 2020  | 2021  | 2022  | 2023  | 2024   |
|---|-------|-------|-------|-------|--------|
| Revenue                                 | 265   | 592   | 1,219 | 2,066 | 2,806  |
| COGS                                    | 117   | 243   | 458   | 718   | 899    |
| Gross Profit                            | 148   | 349   | 761   | 1,348 | 1,908  |
| SG&A                                    | 401   | 655   | 1,009 | 1,402 | 1,715  |
| R&D                                     | 105   | 238   | 467   | 788   | 1,288  |
| Operating Income                        | -358  | -544  | -715  | -842  | -1,095 |
| Interest Expense                        | -12   | -8    | -9    | -74   | -201   |
| Pretax Income                           | -348  | -537  | -677  | -816  | -849   |
| Income Taxes                            | 1     | 2     | 3     | -18   | -11    |
| Tax Rate (%)                            | —     | —     | —     | —     | —      |
| Net Income                              | -349  | -539  | -680  | -797  | -836   |
| Diluted Shares Outstanding              | 238   | 142   | 300   | 319   | 328    |
| EPS                                     | -1.46 | -3.81 | -2.26 | -2.50 | -2.55  |
| Dividend                                | —     | —     | —     | —     | —      |

### GROWTH RATES (%)

|                         |       |       |       |       |       |
|-------------------------|-------|-------|-------|-------|-------|
| Revenue                 | 173.9 | 123.6 | 106.0 | 69.4  | 35.9  |
| Operating Income        | —     | —     | —     | —     | —     |
| Net Income              | —     | —     | —     | —     | —     |
| EPS                     | —     | —     | —     | —     | —     |
| Dividend                | —     | —     | —     | —     | —     |
| Sustainable Growth Rate | -8.5  | -15.0 | -13.9 | -16.9 | -28.7 |

### VALUATION ANALYSIS

|                           |               |             |             |             |                 |
|---------------------------|---------------|-------------|-------------|-------------|-----------------|
| Price: High               | \$429.00      | \$405.00    | \$344.00    | \$202.83    | —               |
| Price: Low                | \$208.55      | \$184.71    | \$110.27    | \$119.27    | —               |
| Price/Sales: High-Low     | 386.3 - 187.8 | 96.9 - 44.2 | 84.7 - 27.2 | 31.3 - 18.4 | — —             |
| P/E: High-Low             | — —           | — —         | — —         | — —         | — —             |
| Price/Cash Flow: High-Low | — — 2,342.4   | — — 1,068.3 | — — 266.5   | — — 85.4    | — — 91.6 - 53.9 |

## Financial & Risk Analysis

| FINANCIAL STRENGTH               | 2022  | 2023  | 2024  |
|----------------------------------|-------|-------|-------|
| Cash (\$ in Millions)            | 1,086 | 940   | 1,763 |
| Working Capital (\$ in Millions) | 3,202 | 2,991 | 2,308 |
| Current Ratio                    | 3.29  | 2.50  | 1.85  |
| LT Debt/Equity Ratio (%)         | 3.6   | 4.1   | 4.9   |
| Total Debt/Equity Ratio (%)      | 4.1   | 4.6   | 5.6   |

### RATIOS (%)

|                     |       |       |       |
|---------------------|-------|-------|-------|
| Gross Profit Margin | 62.4  | 65.3  | 68.0  |
| Operating Margin    | -58.6 | -40.8 | -39.0 |
| Net Margin          | -55.8 | -38.6 | -29.8 |
| Return On Assets    | -10.8 | -11.1 | -10.5 |
| Return On Equity    | -13.6 | -15.2 | -15.7 |

### RISK ANALYSIS

|                                |     |      |     |
|--------------------------------|-----|------|-----|
| Cash Cycle (days)              | —   | —    | —   |
| Cash Flow/Cap Ex               | 2.1 | 10.9 | 8.7 |
| Oper. Income/Int. Exp. (ratio) | —   | —    | —   |
| Payout Ratio                   | —   | —    | —   |

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## Analyst's Notes ...Continued

intends to unify both transactional and analytical data in one platform saving customers the burden to data transfer between the two functions. Hybrid Tables identifies intelligently whether a query is transactional or analytical to provide optimal performance.

### EARNINGS & GROWTH ANALYSIS

We are raising our FY25 non-GAAP EPS estimate to \$0.73 from \$0.56 and our FY26 forecast to \$0.85 from \$0.76. Our five-year average earnings growth rate forecast is 6%.

Snowflake's core value proposition is centered on its ability to unify data into an 'analytics-ready format' from different types of data, structured, semi-structured, and unstructured held in disparate 'silos' including on-premise systems, cloud platforms, networks, and applications both within the enterprise and outside the enterprise among its ecosystem of customers, suppliers, and partners. After data is unified in Snowflake's Data Cloud, Snowflake's enterprise customers can use Snowflake's compute engine to perform data analytics, enable data engineering, AI/ML applications, and collaboration to improve products and services, and create new business applications and revenue streams. Snowflake's solutions also enable the enterprise to secure, govern, and manage data compliance. Snowflake's software architecture is a cloud-native software-as-a-service (SaaS), integrated and scalable across compute, storage, and cloud services. The company employs a consumption-based business model, i.e. customers pay for only

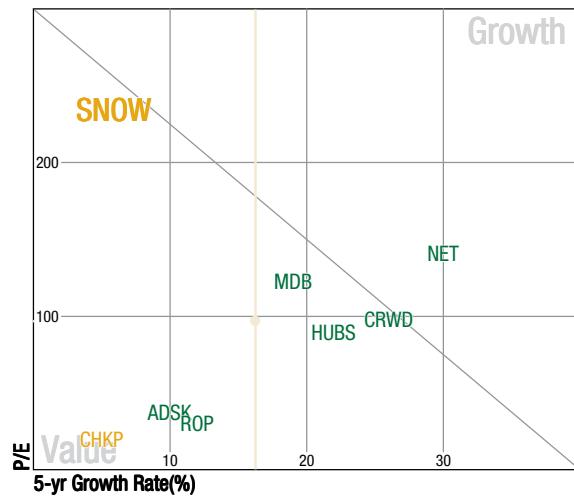
what they need rather than through a subscription, though 80% of billings are paid annually in advance. Snowflake essentially relieves its customers of the headaches of having to manage complex and often something less than interoperable data systems.

As with every enterprise technology firm that we cover, technology innovation underpins Snowflake's growth strategies. Innovative technology not only attracts new customers but new product features and extensions enable wallet expansion within the customer base. The company looks to continue to develop and expand its software solutions through both organic R&D and acquisitions. R&D expenditures have expanded from 18% of revenue in FY23 to 24% in 3Q25. Although most of the expansion is due to increased purchases of NVIDIA chips to fuel Snowflake's new GenAI services, the R&D margin remains remarkable and much higher than many peers. Snowflake adheres to the typical SaaS 'land and expand' marketing model, whereby it plans to grow by increasing the number of its customers, while also expanding the wallet share of customers already within its customer base. In fiscal 3Q25, high-value customers responsible for billing over \$1 million in trailing 12-month product revenue rose 25% to 542, as the company added a net 32 customers in the quarter. The company's net revenue retention rate was a remarkable 127% in 3Q25 was steady sequentially, though it declined from 135% in 3Q24. This metric has shown a pattern of decline over the last year. Snowflake is expanding globally and has begun to provide tailored solutions to industry verticals. It has launched industry specific solutions

## Peer & Industry Analysis

The graphics in this section are designed to allow investors to compare SNOW versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- The scatterplot shows how SNOW stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.
- The table builds on the scatterplot by displaying more financial information.
- The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how SNOW might fit into or modify a diversified portfolio.



| Ticker              | Company                        | Market Cap (\$ in Millions) | 5-yr Growth Rate (%) | Current FY P/E | Net Margin (%) | 1-yr EPS Growth (%) | Argus Rating |
|---------------------|--------------------------------|-----------------------------|----------------------|----------------|----------------|---------------------|--------------|
| CRWD                | CrowdStrike Holdings Inc       | 83,208                      | 26.0                 | 98.2           | 4.8            | 20.3                | BUY          |
| ADSK                | Autodesk Inc.                  | 67,813                      | 10.0                 | 37.8           | 18.2           | 9.0                 | BUY          |
| ROP                 | Roper Technologies Inc         | 59,433                      | 12.0                 | 30.4           | 21.8           | 9.6                 | BUY          |
| <b>SNOW</b>         | <b>Snowflake Inc</b>           | <b>57,437</b>               | <b>6.0</b>           | <b>234.7</b>   | <b>-33.0</b>   | <b>16.4</b>         | <b>HOLD</b>  |
| HUBS                | HubSpot Inc                    | 37,169                      | 22.0                 | 89.6           | -.6            | 10.7                | BUY          |
| NET                 | Cloudflare Inc                 | 31,868                      | 30.0                 | 140.9          | -6.0           | 12.2                | BUY          |
| MDB                 | MongoDB Inc                    | 23,301                      | 19.0                 | 123.2          | -12.1          | 33.6                | BUY          |
| CHKP                | Check Point Software Technolgi | 20,016                      | 5.0                  | 20.0           | 33.2           | 10.7                | HOLD         |
| <b>Peer Average</b> |                                | <b>47,531</b>               | <b>16.3</b>          | <b>96.8</b>    | <b>3.3</b>     | <b>15.3</b>         |              |



## Analyst's Notes ...Continued

including its Telecom Data Cloud, Financial Services Data Cloud, Media Data Cloud, Healthcare and Life Sciences Data Cloud, and the Retail Data Cloud. The company also sees a key growth vector in enabling client ecosystems to collaborate through sharing data and data products including through the Snowflake Marketplace. Finally, Snowflake will continue to invest in expanding its channel partner network of system integrators, resellers, and service partners.

Gartner is forecasting that Snowflake's total available market (Enterprise Infrastructure Software, worldwide) will more than double to \$342 billion in calendar 2028 from \$152 million in 2023. Doing the math, Gartner's forecast suggests an 18% CAGR.

Snowflake expects to benefit from network effects as the amount of data in its Data Cloud increases. To this end, the company has continually moved to increase the interoperability of different forms of data. Snowflake launched Iceberg Tables based on the Apache Iceberg table format in June. Iceberg Tables provides compute engine data interoperability and management expects it to expand the amount of data within the Data Cloud.

Snowflake relies on the three leading cloud platforms (outside of China), Amazon Web Services (AWS), Microsoft Azure, and Google Cloud Platform (GCP). Snowflake's software architecture and services are interoperable among the three platforms, thereby obviating vendor lock-in.

### FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Snowflake is Medium, the midpoint on our five-point scale. On September 25, Snowflake issued two tranches of convertible notes, \$1.15 billion maturing in 2027 and \$1.15 billion maturing in 2029. At the end of the quarter, the company had \$2.3 billion in long term debt and cash and near cash equivalents of \$4.2 billion. The strike price on the notes is \$157.50. With the share price spike on 3Q results, the shares are not in the money. Trailing 12-month free cash flow increased 20% to 793 million in fiscal 3Q25.

As a relatively new company focused on business development, Snowflake does not pay a dividend nor does it intend to do so. The company repurchased \$1.9 billion of its stock in the first nine months of FY25, buying back \$1 billion in 3Q25 alone. Management noted that one of the uses of its 3Q convertible debt offering was stock repurchases, among others, including potential acquisitions. Share count was essentially level year over year in 3Q.

### MANAGEMENT & RISKS

Snowflake is subject to the usual risks of fast-growing tech companies. It must effectively manage its current high growth (and subsequent transition to a period of slower growth), while also building out its product portfolio and field sales force. As almost all of Snowflake's revenue comes from subscriptions to its software platform, any bugs in the software or implementation difficulties could hurt customer retention and weigh on the company's financial outlook. As with all Tech companies, Snowflake must rapidly innovate to both keep up with new technologies like GenAI and develop new product features and extensions. The company will likely continue to invest heavily in R&D, including in GenAI, and in scaling its marketing efforts, all of which may not produce the expected returns. R&D is running in the mid-20s as a percentage of revenue, well above the mid-to-low-teens or lower rates of many other tech companies. Snowflake must also ensure the security and reliability of its service platforms.

Snowflake ingests and stores large amounts of customer data and therefore could be subject to cyberattack. A cybersecurity breach or loss of customer data would be an obvious negative for the company. The company also needs to manage its international expansion well, including the risks around expansion into the China market.

Snowflake has a limited operating history, and this history has included both GAAP and non-GAAP net losses. The company remains GAAP unprofitable and only became consistently non-GAAP profitable in fiscal 2Q23 (July 2022). The company's limited operating history makes it difficult to evaluate its current prospects or to forecast future growth.

Snowflake's solutions leverage the extensibility of the major hyperscale cloud providers, Amazon Web Services, Microsoft Azure, and Google Cloud Platform. However, these providers may also offer their own services that compete with Snowflake's services at a price advantage or may leverage other competitive vectors.

Snowflake operates in an industry with considerable patent and intellectual property (IP) development and faces a range of IP-related risks. In particular, adverse rulings in patent infringement cases could force the company to design patent workarounds, abandon certain technologies, or pay confiscatory license fees. These additional technical and legal costs could have a substantial negative impact on the company's results.

Sridhar Ramaswamy was appointed CEO in February 2024. Mr. Ramaswamy ran Google's advertising division and was a co-founder and CEO of Tech startup Neeva before it was acquired by Snowflake in May 2023. Mike Scarpelli has been CFO since 2019 (pre-IPO). He was previously CFO of ServiceNow from 2011-2019, serving concurrently with Frank Slootman, Snowflake's chairman of the board, former CEO of ServiceNow and CEO of Snowflake immediately prior to Mr. Ramaswamy.

### COMPANY DESCRIPTION

Snowflake is a cloud-native data warehouse company. The company leverages the large public hyperscale cloud services to provide its Data Cloud to customers, enabling them to unify disparate data sources for the purposes of data engineering, and the development of artificial intelligence, applications, collaboration, and cybersecurity. Snowflake went public on September 16, 2020 at \$120 per share. The company derives 23% of its revenue outside the U.S.

### VALUATION

Our valuation methodology is multistage, including peer analysis, a multiple-analysis matrix applied to our proprietary forecasts, and discounted cash flow modeling. SNOW shares have traded between \$107 and \$237 over the past year and are currently near the midpoint of the range. According to Bloomberg, SNOW shares are down 15% year to date compared with a 24% gain for the S&P 500 and a 34% gain for the S&P 500 Information Technology Sector Index. Snowflake's lagging EV/revenue multiple of 16.3 is more than double the peer median of 7. On a forward basis, Snowflake's EV/revenue multiple of 13.2 is 168% above the peer average of 4.9. We are reiterating our HOLD-rating on Snowflake.

On November 21, HOLD-rated SNOW closed at \$171.35, up \$42.23.

## About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

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Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
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- A SELL-rated stock is expected to underperform the S&P 500.

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