

07-Sep-2016

Exelon Corp. (EXC)

Barclays CEO Global Energy Power Conference

CORPORATE PARTICIPANTS

Jonathan W. Thayer

Chief Financial Officer & Senior Executive Vice President, Exelon Corp.

OTHER PARTICIPANTS

Daniel Ford

Analyst, Barclays Capital, Inc.

MANAGEMENT DISCUSSION SECTION

Daniel Ford

Analyst, Barclays Capital, Inc.

All right. Our next presentation is going to be Exelon Corporation. We have Jack Thayer, who is the Chief Financial Officer, who's going to take us through what we think is a very exciting story in Exelon. Jack?

Jonathan W. Thayer

Chief Financial Officer & Senior Executive Vice President, Exelon Corp.

Okay. Thank you. So start-off by quickly flipping through the cautionary statements. You can read them at your leisure and move quickly to our brag slide. So, wanted to start-off by saying good morning to everyone. Glad that there are more people in the room for this presentation than the last one. It was going to look like it was going to be a very rough start.

But what you can see here, we are the only utility in the Fortune 100. We serve more utility customers than any other company in the industry. We have over \$30 billion of rate base and that's growing. We're the largest and cleanest competitive power generator with over 90% of our output being carbon-free and we own nearly a quarter of all the nuclear reactors in the U.S. and are the best-in-class for capacity factor, outage days and operating costs. And our Constellation retail platform is the biggest in the U.S. selling nearly 200-terawatt hours of electricity annually and more than 800 Bcf of gas.

Exelon is well-positioned to deliver enduring value over the next five years, and we expect to deliver 6.1% rate base growth across our utilities and that's going to drive 7% to 9% EPS growth one of the best growth stories in our industry. We have \$8.2 billion of free cash flow at ExGen to fund utility growth without incremental equity issuance, while also reducing debt.

Importantly, we're optimizing the value of ExGen raising nearly \$5 billion by monetizing assets through outright sales or project finance. We secured \$0.08 to \$0.10 per share a year through the Clean Energy Standard in New York to recognize the carbon-free value of our nuclear plants and we obviously hope to pursue similar opportunities in other states like Illinois.

We're unlocking \$0.07 per share of run rate value by closing uneconomic nuclear plants. Our balance sheet is extremely strong, well exceeding investment-grade credit thresholds. And we're growing the dividend to 2.5% through 2018.

In terms of our capital spend, we expect to spend more than \$25 billion in utilities over the next five years, which will meaningfully grow our rate base. And as you can see, this represents almost all of our discretionary investment through 2020.

In terms of the results of that investment, you'll see us growing our rate base over the next five years, we'll be adding nearly \$9 billion of rate base growing to more than \$40 billion of rate base by 2020. And to put this in context, our rate base growth over the next five years is equivalent of adding another PHI without having to pay a premium or navigate regulatory approval.

In terms of overall EPS growth, we're targeting EPS growth of 7% to 9% annually through 2020. This is driven by the aforementioned rate base growth as well as improvement in PHI's earned ROEs. We see the utilities providing the majority of our EPS growth throughout this decade, and see the potential for sustaining 5% EPS growth for the five years beyond 2020.

What's underpinning all of this is our proven track record of operational performance. And as you can see here, looking at the time of the CEG merger in 2012, where our utilities were operating in key performance metrics at that time, generally speaking, ranks second quartile, third quartile and in some cases fourth quartile, and by 2015 using the Exelon utility model, almost all of those categories were in the top quartile.

Now, at the far right, you can see PHI, similar circumstances to BGE, which is now operating at top quartile levels, and obviously, underpinning one of our regulatory commitments as part of the PHI transaction was improving PHI's operating performance to top quartile performance. And to the extent that that happens, I'll show you on the next slide that with these improvements, we see significant uplift in regulatory performance and earned ROEs.

So, as you can see, as outage frequency declined, customer satisfaction, which is most correlated to that, improved. The overall earned operating ROEs improved to where in 2015, albeit with the benefit of some mild storm weather, we earned 10.6%. Having been part of the legacy Constellation. I don't know that I ever anticipated that I would see a double-digit earned ROE at the utility. So, you can see why we have a lot of hope, particularly given the composition of PHI within Maryland to enjoy a similar experience.

There is a significant gap, however, in earned versus allowed ROEs across the PHI utility complex, and we've already begun the process of making those filings. We have six distribution rate cases that are currently filed, three transmission formula rate filings, and we're seeking \$465 million of revenue increases across all of our jurisdictions. And importantly, we received our first settlement in New Jersey on August 24, and that was on plan and earlier than expected. And we expect to have the remaining cases finished by next summer.

On the GenCo side, we're taking meaningful steps to improve the earnings consistency of this business. Our Constellation business maximizes the value of our portfolio and our generation to load matching strategy provides additional value over what our plants could otherwise get in the open market. And our durable and loyal customer base, and our growing retail business improves the consistency of ExGen's earnings.

PJM capacity revenues also provide us a stable revenue stream consistently of between \$1 billion and \$1.2 billion per year, and programs like the Zero Emission Credit program in New York, the first of its kind to value nuclear for its carbon-free attributes, recognizes nuclear generation's importance in meeting our nation's carbon goals. The

ZEC will preserve our at-risk Ginna and Nine Mile plants, providing up to \$350 million of additional cash through 2020, and \$0.08 to \$0.10 per share in additional earnings. We also announced as part of this that we've reached an agreement to purchase the FitzPatrick plant from Entergy for \$110 million, and FitzPatrick is also eligible for the ZEC.

And importantly, we also have a track record of retiring assets that are no longer economically viable. By retiring those assets, we're able to stem the loss of cash and earnings associated with these plants. Clinton and Quad, which are the two at-risk nuclear plants in Illinois that we've announced the shutdowns of, have lost \$800 million over the last seven years, and retiring these assets will result in \$75 million of cash flow upside in 2019, and \$0.07 of run rate earnings improvement.

Finally, we look for ways to monetize our assets. We've raised more than \$5 billion from selling assets or project financing them. We sold 3,000 megawatts of Generation at an average price of \$600 per kW in 2014, which was a very good price to in part fund the PHI transaction. We've also raised more than \$3 billion in non-recourse project finance, and we'll seek to project finance additional assets and quickly recycle the proceeds.

Similar to our story on the regulated side, we are a best-in-class operator on the Generation side, by running our assets at top capacity factors, 93% or better. We make roughly \$250 million more than if we were running at the 90% average current industry, or current industry average.

We also operate our fleet at a very low cost. And as you can see, we've been working to both improve our O&M spend and reduce costs there, as well as reduce our base capital spend and drive free cash flow from these assets.

On the growth side, after completing the two combined cycles in Texas, and completing a number of smaller investments, you'll see that in 2018 and beyond, we expect to spend about \$100 million annually on ExGen growth. So, as you think about the relative mix of CapEx going forward, \$25 billion at the utilities, a much smaller amount and shrinking amount at the GenCo. This \$100 million represents about 25 megawatts [ph] have had the (08:58) customers solar per year, so you can see the significant focus of our capital program is on growing the utilities.

In terms of ExGen's role within the broader company is really meant to be the source of free cash flow to fund the growth of the utilities without issuing any equity. So, you see \$8.2 billion of cumulative cash flow, at ExGen, the aforementioned \$2.3 billion of committed ExGen growth and then, you see the \$2.7 billion to \$3.2 billion of utility investment and the remainder of that cash flow is used to get to our debt reduction targets.

In terms of the nuclear part of our business, obviously, New York sets a backdrop of what is the art of a possible? Governor Cuomo, took the lead there in protecting these nuclear assets and the jobs and economic contributions that come with them as part of a broader goal to for New York to achieve its carbon objectives.

In contrast to that is Illinois, which has two of our assets that we have announced that we'll retire in the absence of legislation. We have until December for the legislature to take up action on those assets for the Clean Energy Standard. But you can see here the significant economic impact, as well as the carbon impact that will come if those assets are retired. We hope that the legislature will be prudent in its actions just as Governor Cuomo has been lauded for his actions in New York, we hope that the legislature in Illinois will reflect on that and take similar action.

In terms of our credit objectives, we have announced a target of three times debt to EBITDA on the ExGen side and you can see we're well above on the Exelon holding company consolidated side are S&P thresholds. In terms of our credit ratings across our various entities and registrants, you can see we have very attractive ratings and an improving credit profile in the ExGen part of our business. This three times debt to EBITDA target incorporates the roughly \$3 billion of project finance that we have. If you were to exclude that, we would be meaningfully below the three times debt to EBITDA target that we're seeking.

What this effectively means is, as we grow the utilities, as we invest and deploy capital there, our utilities as they grow in EPS and rate base are able to shoulder more and more of the dividend obligation of the company. So, on the slide here you can see the implied payout ratio of the utilities were to cover all of the dividend plus the interest expense at Exelon HoldCo, and what you can see is if we were growing the dividend 2.5% per annum through 2020, would imply a 77% payout ratio.

I think Chris commented at our Analyst Day that we see this as a potential opportunity for further upside on the dividend that he wanted to get through the rate cycles at PHI to ensure that we were in a good place. But I think in terms of our dividend growth profile with respect to our industry peers, there's potentially more opportunity here.

And all this gets to how we anticipate delivering value to you through our capital allocation policy. At its core, the strong balance sheet is a commitment that we have to all of our stakeholders and that allows us a great deal of flexibility and how we can return capital to shareholders with the free cash flow that we have. We are targeting 2.5% dividend growth through 2018, but we do, as I mentioned, see upside potential beyond that.

We're investing \$25 billion of capital over the next five years in utilities, and I think if I was to think about 2019 and 2020, some of the capital that we have profiled there, there may be potential upside beyond that, but we're retiring more than \$3 billion of debt at ExGen over the next five years. And we're investing in selective contracted assets, but at a very modest level, so \$100 million per annum once we get into 2018 and beyond. And we think this is the right strategy for our markets and our assets, and the right strategy to improve shareholder value and deliver value to our shareholders.

And appreciate your time today and, Dan, happy to take some questions.

QUESTION AND ANSWER SECTION

Daniel Ford

Analyst, Barclays Capital, Inc.

Q

Thanks very much. There are some microphones that'll be going around the room for Q&A. Just to start off Jack, can you talk a little bit about why you have covered that the ZEC program will withstand the inevitable core challenges that we'll see, and maybe how they compare to RECs as well?

Jonathan W. Thayer

Chief Financial Officer & Senior Executive Vice President, Exelon Corp.

A

Sure. So, obviously, as you could imagine, we have a rather extensive complement of folks that focus on FERC within and they were critical to helping design this program. And so as we think about what we were targeting, we're really – and you mentioned the similarities to RECs – we were really looking to have something that very much felt and looked like a REC. What we didn't want to do is others, whether it was in Ohio, or contracts for differences within Maryland.

We wanted to make certain that we weren't going to run afoul of affiliate issues, that we were not going to run afoul of perceptions of subsidization, and we think we've structured the New York program in a way that it's not limited to assets, specifically within New York, and it's paying assets for their clean energy attributes. And to the extent that FERC finds issue with that, then I think given the parallels between RECs and ZECs, it opens a broader Pandora's box in terms of how clean generation gets compensated in the United States. And so, our expectation is, while there will be challenge because of the implications of the ZEC for other asset classes, that we'll be able to prevail.

Daniel Ford

Analyst, Barclays Capital, Inc.

Q

Other questions for Jack?

Q

Hi. Thank you. I guess in – upcoming in this month or so, PJM is going to do a backcast of what it would've looked like with 100% capacity performance for the last auction results. Is that coming up? What do you think the impact is? And are there going to be significant offsets to that as we head into the next auction?

Jonathan W. Thayer

Chief Financial Officer & Senior Executive Vice President, Exelon Corp.

A

So, there's no question that 100% capacity performance is one of the things where it will have a pretty – we think, a material impact in part because of DR, that on where we see prices clearing. But I don't know that it'll be so significant as to cause a massive uplift, particularly within our ComEd zone which separated. In this most recent auction, we cleared slices of Byron. We would anticipate that all of those slices of Byron would clear in the 100% CP regime. And then, we'll just need to see where that market clearing price is.

And I would say one of the things that we've seen, I think there was concern about how the market would receive the increased cost of CP. I think one of the things we've seen this summer because assets are more reliable

Exelon Corp. (EXC)

Barclays CEO Global Energy Power Conference

C Corrected Transcript
07-Sep-2016

because investments have been made, we haven't – even on the back of significant load and weather, we haven't seen dramatic price spikes. So, in terms of how consumers are feeling, these various programs, it looks like the benefit of CP is you're getting improved reliability and avoiding historic price spikes. So, it actually looks like a pretty good outcome for customers, and I think there was concern that it was not going to drive anything more than a price uplift.

Q

Hello, hi.

Jonathan W. Thayer*Chief Financial Officer & Senior Executive Vice President, Exelon Corp.*

A

Hello. Hey, [ph] Rick (18:10).

Q

Yeah, hi. You sounded like there is a little hope that Illinois may still reach some kind of a decision on the nuclear program, which you are talking about. So, how do you see that, because so far they have been holding back on this issue, and now there is a small glimmer of hope because of New York. So, how do you see that parallel working out?

Jonathan W. Thayer*Chief Financial Officer & Senior Executive Vice President, Exelon Corp.*

A

I wouldn't want to read too much into my hope. I think, fair to say, Illinois, has some interesting dilemmas in front of it. There are two veto sessions, one in November, one in December, to the extent the legislature decides to pass legislation on the Clean Energy Standard. We can still keep Quad and Clinton operating. Our flexibility to do that after December is effectively non-existing. And so, I am perhaps speaking with hope in the context of the implications of retiring those assets on our employees and the communities that the plants are located in, because it'll be catastrophic, I think. But beyond that, it's completely in the legislature's and the governor's hands as to whether or not they want to save those plants.

Q

Could I just follow-up a bit. Do you sense from politicians that they are changing their tune, or do you think that they are still where they were six months ago?

Jonathan W. Thayer*Chief Financial Officer & Senior Executive Vice President, Exelon Corp.*

A

The beauty of being a CFO is I don't spend any time in Springfield. And so, I am probably the wrong person to prognosticate on this, I think, from just a purely objective. I look at that slide we have, which is we call the Tale of Two Cities slides, where you have New York preserving all of that economic contribution in Illinois has the opportunity to do the same. And again, speaking with hope, I would hope that the prospect of losing that economic contribution, which is hard to replicate would prevail upon legislators to take action. But I don't have any insight as to whether there's appetite for that or not. I am speaking purely from a personal perspective. I'd hate to see these assets retire. We know what the alternative is if no actions taken. We have \$0.07 to \$0.10 of uplift and

we'll have \$75 million of cash flow run rate in 2019. But for the people that work at the plants, and for those towns, I hope we don't have to take that action.

Q

About total EPS, what portion do you see long-term action making up?

Jonathan W. Thayer

Chief Financial Officer & Senior Executive Vice President, Exelon Corp.

A

If you look at the current commodities curve, it's right around 75% or more of our earnings will come from the utility, 25% will come from the merchant part of our business. To the extent that that number becomes more heavily weighted towards the GenCo, that just means power prices have gone up, and we have more free cash flow. So I'm happy to be thrown in that briar patch. But if we just look at the current marks, we're three quarters regulated by 2020, and that married up with the ability of the utility to cover our growing dividend, I think gives us a lot of flexibility in terms of how we return value to shareholders.

Q

Hi, thanks. You mentioned in your prepared remarks how you've done asset sales in the past at ExGen. I wonder what your thoughts are on the renewables business, whether the market there is as deep as it had been when the deal closed, were more active, what your thoughts are in terms of possibility selling that business at some point?

Jonathan W. Thayer

Chief Financial Officer & Senior Executive Vice President, Exelon Corp.

A

So, a couple of thoughts on the renewables business. We have historically participated in that business and have a reasonably sized wind fleet as well as a fair amount of solar assets, and those have been good investments for us. I think the one challenge in front of us, and it's a purely structural issue, because of bonus depreciation, we're not a cash tax payer until I believe it's 2021. And so, as you think about the economics of renewables and the role of tax incentives as part of that, it's very hard for us to harvest and keep the value of those tax attributes, and so, we have to sell them as tax equity, which makes them candidly less economic for us. So, I would say that's what's underpinning the significant drop in investments at ExGen that you see in 2019 or 2018 and beyond.

In terms of our existing fleet, those are assets that contribute to our EPS. They're very good assets. And we have a history of responding to inquiry if people are inclined. That's underpinned some of the asset sales we've had in the past, and to the extent that there were an opportunity to monetize some of our assets, there are any number of structures that that could entail, I think we'd consider it.

But I'd also say there's, I would say, value in us staying in that business because of our expectations of the role renewables will play in distributed generation at the utilities as part of rate base. And just more broadly, if you look at the stakeholders that within Illinois around the Clean Energy Standard, many of our partners in trying to secure that legislation are very focused on expanding renewable generation. And so we have wind partners, we have community solar partners and others, who I think want to be partnered with like-minded individuals. And so having those credentials in terms of being an operator of renewables, I think, continues to be important to us.

Q

Hey, thanks. Just to clarify, so would that mean further future renewable development more under a regulated construct versus merchant? And then I guess just back to the tax equity, I mean kind of what's your sense of the overall market appetite there? I'm getting that it's a little less robust than it was.

Jonathan W. Thayer

Chief Financial Officer & Senior Executive Vice President, Exelon Corp.

Right.

A

Q

Thanks.

Jonathan W. Thayer

Chief Financial Officer & Senior Executive Vice President, Exelon Corp.

So, we have a history of selling tax appetite to – typically, they've been technology companies out on the West Coast that are generating significant profits. To your question on where do we see distributed generation, as you think about our utility of the future, if Anne Pramaggiore, who is the CEO of ComEd, were up here, she would speak to a desire to have community solar. It's the most economic way for our customers in a non-regressive way, in a democratic way to participate in renewables. It's certainly significantly cheaper than rooftop solar, which is both regressive as well as just expensive for the carbon-free generation that's produced.

And we see other opportunities around things like battery storage as well as other aspects that will both improve reliability, but also provide cleaner generation. And part of the reason for us, it's not just a cost issue of why we think it's right to embed that within the regulated construct, but it's also just from a grid security standpoint. As you think about the role of cyber and a two-way grid, I think it's going to be increasingly important for one party to be accountable for that grid security, and part of that means to the extent that we have two-way communication that we're playing a meaningful role in insulating that.

Daniel Ford

Analyst, Barclays Capital, Inc.

Jack, the overall presentation and story that you've laid out at your Analyst Day really is one of de-risking the balance sheet, de-risking the business by becoming more regulated and more predictable. Inside of that 25% slice is still ExGen. Can you talk about the slices within that in terms of predictability because I've got capacity, I've got Constellation, those don't have the same kind of commodity ups and downs as we traditionally think about ExGen?

Jonathan W. Thayer


Chief Financial Officer & Senior Executive Vice President, Exelon Corp.

Right. So, \$1 billion to \$1.2 billion of capacity per year, as you mentioned, and that's highly visible and knowable out at least through 2019. We'll get the uplift [ph] that were (27:56) we believe uplift from 100% CP in 2020 and beyond.

With respect to the Constellation business, that is a business that has consistently, particularly on the back of the polar vortex, performed limited capital requirements, more liquidity, that's required to participate in that business, as long as it's married to a large generation fleet. And that business has consistently generated a significant cash flow, on an annual basis, 80% renewal rates for our customers, margins that have held faster between \$2

Exelon Corp. (EXC)

Barclays CEO Global Energy Power Conference

 **Corrected Transcript**
07-Sep-2016

megawatt hour and \$4 per megawatt hour, on the electric side, around \$0.20 an MMBtu on the gas side, growing gas business.

And we've been able to make consolidating acquisitions. We just recently announced and closed ConEd retail business. We bought Entegris' business, and we've been able to opportunistically purchase these assets at significant discounts that we perceived a fair value, and they are immediately accretive in cash and cash flow positive, which leaves the commodity exposure. And as you think about that commodity exposure, I would like to believe we're at a floor. And there are assets that are really struggling in this environment. Our nukes, as an example that we're retiring, as others look at their fleets and act with discipline and retire certain assets. You'd like to think we're certainly at a floor, if not, there's some opportunity for upside.

And so, as I think about that consistent cash flow coming-off the GenCo, I feel like that's a very attractive and unique aspect of the story, because to your point on de-risking we're trying to take the balance sheet out of the equation. We have one of the premier growth stories on the regulated side, and we have what a lot of our peers in UTY don't have which is a free cash flow generating part of our business that we can redeploy that capital whether it's further growth at the utilities, growing the dividend, or returning capital to shareholders through buybacks or other approaches.

So, I think, the opportunities in front of us with good performance to have a really differentiated story. And one that I think is historically traded at a meaningful discount to peers and to the extent that we can close that gap and get – we're trading three times – three turns light relative to some of the peers, I think there is an opportunity for multiple uplift as well as just EPS growth. And hopefully, that's compelling value opportunity for our shareholders that they can get excited about.

Q

All right.

Daniel Ford*Analyst, Barclays Capital, Inc.*

All right. Well, if there are no other questions, we do have a breakout session in Liberty 5. So we'll be walking Jack up, and thanks very much the presentation.

Jonathan W. Thayer*Chief Financial Officer & Senior Executive Vice President, Exelon Corp.*

Great. Thank you, guys.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2016 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.