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**Exelon Corp.** (EXC)

Q1 2014 Earnings Call

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*President and Chief Executive Officer, Exelon Corp.*

**Joseph M. Rigby**

*Chairman, President & Chief Executive Officer, Pepco Holdings, Inc.*

**Jonathan W. Thayer**

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**Joseph Nigro**

*Executive Vice President, Exelon; CEO, Constellation, Exelon Corp.*

## OTHER PARTICIPANTS

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning. My name is Brandy and I will be your conference operator today. At this time, I would like to welcome everyone to the Exelon Acquisition of Pepco Holdings Incorporated Conference Call. [Operator Instructions] Thank you.

Mr. Ravi Ganti, Vice President of Investor Relations, sir, you may begin your conference.

**Ravi Ganti**

*Vice President-Investor Relations, Exelon Corp.*

Thank you, operator. Good morning, everyone. Thank you for joining us. Earlier this morning, we made two announcements. Exelon plans to acquire Pepco Holdings in an all-cash transaction and our first quarter 2014 earnings results. Materials and presentations related to the earnings and the acquisition are available on the Investor Relations section of our website.

Our discussion on today's call contains forward-looking statements and estimates that are subject to various risks and uncertainties. You should refer to the first two slides of today's presentation as well as information in Exelon's SEC filings for a discussion of factors that may cause the results to differ from management's projections, forecasts and expectations. Leading the call today are Chris Crane, Exelon's President and CEO; Joe Rigby, Chairman, President and CEO for Pepco Holdings and Jack Thayer, Executive Vice President and CFO, Exelon. We have scheduled 60 minutes for today's call. After the prepared remarks, we will open the floor for our Q&A session.

With that, I turn the call over to Chris, CEO, Exelon.

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## Christopher M. Crane

*President and Chief Executive Officer, Exelon Corp.*

Thanks everybody for joining us this morning. Before we get to the topic that we'll focus on today's call, our acquisition of Pepco Holdings, I want to spend a minute on our earnings for the quarter. We delivered on our financial expectations with earnings of \$0.62 a share, which was within the range for our quarter. Our earnings for the quarter would have been \$0.12 higher without the large outage in January – the outage at Calvert Cliffs, our nuclear facility, and the impact of the severe ice storm in the PECO service territory.

We are providing guidance of \$0.40 to \$0.50 per share for the second quarter operating earnings. We're on track to deliver on our financial goals for the full year. We've provided prepared remarks on the market portfolio strategy and financial results along with our earnings release this morning. You can contact IR for any follow-up questions. We do have Ken Cornew and Joe Nigro in the room if there is specifics that we want to touch on.

Now I'll move on to the topic that is the focus today. We're extremely pleased to announce that we have reached an agreement to acquire Pepco Holdings. We're doing this call from Washington D.C. and I'm very pleased to be here today with Pepco's CEO, Joe Rigby, joining the call to share his views on the transaction and what it means for Pepco, the 2 million customers in the D.C., Delaware, Maryland, and New Jersey area.

We think this deal is the right deal at the right time for Exelon. This is a strategic acquisition that results in a leading Mid-Atlantic electric and gas utility platform with a contiguous footprint that will serve almost 10 million customers in six states. This acquisition will add further sources of stable regulated cash to our portfolio and leverages our position as a leader in operating large urban utilities. Exelon will pay a cash consideration of \$27.25, that translates to a 27.7% (sic) [24.7%] upfront premium based on last Friday's closing. We have committed financing via our bridge line in place to fund the acquisition and our strong balance sheet will enable us to source permanent financing for the purchase price using balance mix of debt and equity along with cash on our balance sheet. Jack will talk through more of the financial details later, but let me give you a few initial thoughts.

This transaction is highly accretive beginning in our first year of full operations as a combined company. It's accretive to the tune of \$0.15 to \$0.20 per share on a steady state basis. It maintains Exelon's balance sheet flexibility to continue to pursue further growth investments across all of our businesses, and it preserves the upside in Exelon's value that we still see fundamentally expected to gain from the continued recovery in the power markets which have been strong since the first of the year. For Pepco Holdings' customers, this transaction results in direct consumer benefits and enables further sharing of operational best practices across a larger suite of utilities.

Let me turn your attention now to slide 5, to talk more about the strategic benefits of this combination. The geographic fit of Pepco utilities within the Exelon utilities is second to none. There is a natural overlap of our operations in the Mid-Atlantic that will enable us to realize cost savings and improved reliability for all of our customers. And when it comes down to storm restoration, as we've had recent examples on how PECO, BG and ComEd worked together to ensure that we got the lights back for our customers in the face of some of the worst storms we've ever seen in the last few years.

This sizable utility platform also provides an opportunity for us to streamline processes, drive savings and improved efficiency in our day-to-day operations. We can drive performance through our metrics-based operating model. The acquisition also supports our belief in the value of an integrated utility model with a balanced mix of

regulated and non-regulated cash flows and allows us to continue to have the upside for the shareholders from a power price recovery.

We've started to see recovery in the power markets, as I have mentioned, come to fruition, and the utilization of our balance sheet to particularly fund this acquisition maintains a leverage to a significant upside of the power prices.

On slide 6, we show the map of what our service territory will look like post-merger. We've worked in close proximity to Pepco, Atlantic City Electric and Delmarva Power for many years and we're pleased with the prospects of making them part of the Exelon utilities.

Slide 7 provides some key facts related to the transaction. As I mentioned before, we are paying \$27.25 per share for Pepco Holdings in an all-cash transaction. There are no significant changes to our operation or governance from the company, and I look forward to working very closely with Joe and Pepco management team as we work for the regulatory approval process and the integration planning. Our plan is to obtain all required shareholder and regulatory approvals to close the transaction in the second quarter to third quarter of 2015.

Slide 8 provides some additional context around the timeline for the regulatory process. A joint team for regulatory folks from both Exelon and Pepco are prepared to continue working together and in conjunction with stakeholders in the various jurisdictions, secure all the necessary approvals. We expect all the regulatory filings to be made in approximately the next 45 days. While only Maryland has a stated clock on the regulatory process, we believe our experience learned from the Exelon – Constellation merger will position us to secure the needed approvals by, as I said, the second quarter to third quarter of next year.

I'd like to now invite Joe Rigby to give his thoughts about the transaction, how it brings value to PHI shareholders and customers.

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### Joseph M. Rigby

*Chairman, President & Chief Executive Officer, Pepco Holdings, Inc.*

Thanks, Chris. And I want to thank you and your great team for helping make this transaction happen. This is a great day for the Pepco Holdings family, for shareholders, employees, customers, and our communities. We're excited to join the Exelon team and to become part of a larger well-capitalized company that has better scale to invest in infrastructure, people in the local communities.

Our shareholders will receive an attractive premium of 24.7% for the purchase of their shares by Exelon. Chris Crane and Exelon are committed to building upon our significant improvements in system reliability, customer service and outage restoration. Exelon has experience in large urban cities like ours and is a valued corporate citizen. We share a culture of continuous improvement, accountability, safety and commitment to our community.

Our customers will directly benefit as a result of this transaction including \$100 million in customer benefits across Pepco Holdings service territories, for rate credits, low-income assistance and energy efficiency programs, a commitment to further improve system reliability and enhanced storm restoration capabilities. This is a tremendous opportunity, and Exelon is the right partner for taking Pepco Holdings to the next level.

I'd now like to turn the call over to Jack Thayer, CFO of Exelon, to discuss the financials of the transaction. Jack?

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### Jonathan W. Thayer

*Executive Vice President and Chief Financial Officer, Exelon Corp.*

Thank you, Joe. Good morning, everyone. It's an exciting day for Exelon and our shareholders. The financial overview of the transaction begins on slide 11. The acquisition of Pepco Holdings adds significant value for our shareholders. As Chris mentioned, it's significantly earnings accretive in the first full year after closing. The deal will increase earnings by \$0.15 to \$0.20 per share in 2017. The rapid growth of rate base, retained synergies and earnings at Pepco's three utilities combined with our financing plans for the transaction drives sustainable earnings accretion.

As you know, Exelon has committed \$15 billion in capital to ComEd, PECO and BGE to grow their rate bases over the next five years. The addition of the Pepco utilities to the Exelon family will add an incremental \$8.3 billion in regulated rate base, growing our rate base faster than we could on our own. This in turn will increase our regulated earnings, add stable cash flows and add to our financial strength. Additionally, the utility earnings from the pro forma company can fully support the Exelon dividend by 2015.

The integration of the two companies will result in more than \$250 million of net synergies over the first five years of which we can expect roughly one-third will be retained. Our past experience gives us confidence that we can deliver on these synergy targets. The Constellation integration resulted in significant savings, and we believe we can achieve meaningful savings for customers and shareholders in this case as well. This deal brings substantial benefits to our shareholders and the contemplated financing approach preserves the upside to be gained from a power market recovery.

On slide 13, you can see the earnings accretion, the rate base growth and continued strong credit metrics as well as the more balanced business mix on a pro forma basis with operating earnings, pro forma for the transaction.

On slide 13 provides an overview of our financing plans. Our strong balance sheet coupled with the regulated nature of the transaction and the visibility into recurring utility cash flows affords us the opportunity to finance roughly 50% of the acquisition price with debt at Exelon Corporate, taking advantage of a historically low interest rate environment. The remaining portion of the transaction will be funded with a mix of common stock, mandatory convertible securities and up to \$1 billion of cash from the sale of non-core assets at Exelon Generation.

Our investment grade credit ratings at all Exelon and Pepco registrants are expected to be maintained. We have a bridge financing in place for the full amount of the acquisition, which provides significant flexibility for the timing of permanent financing. That is particularly important, given the long lead nature of the regulatory approval process. Going forward, the combined company will continue to have a strong liquidity profile supported by \$9.5 billion in revolving credit facilities. Importantly, this transaction delivers growth for the company, and our financing strategy maintains balance sheet capacity for continued growth investment on both the regulated and merchant sides of our business.

And now, I'll turn the call over to Chris for concluding remarks before Q&A.

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### **Christopher M. Crane**

*President and Chief Executive Officer, Exelon Corp.*

Thanks, Joe and Jack. We've talked with all of you over the last few years, and we've been relentless in our commitment to deliver value to our shareholders in all aspects of the business. We have taken actions to create flexibility to invest in growth, while maintaining a strong investment grade balance sheet. You all know our fundamental view in the upside of power prices, which we are starting to enjoy seeing come to fruition, that has not changed. We've positioned ourselves to further benefit from the market recovery. We also believe in the need for strong infrastructure investment in our utility platforms. As Jack has mentioned, we are investing \$15 billion

in rate base over the next five years at ComEd, PECO and BGE. We now have a unique strategic opportunity to add Pepco Holdings to our company and continue to grow and diversify our regulated footprint.

This truly is an exciting time for Exelon, and we're pleased to have had the time to discuss this with you this morning. And again, I want to thank Joe Rigby personally and his team for allowing this transaction to go forward. The culture of the companies are very similar, and we look forward to learning from the Pepco organization and sharing some of the things we've learned over the past few years as we've improved the performance of our operation, as they have also.

With that, I'll open it up for questions.

## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] And your first question is from Dan Eggers [Credit Suisse].

Dan L. Eggers

*Analyst, Credit Suisse Securities (USA) LLC (Broker)*

Hey. Good morning, guys.

Q

Christopher M. Crane

*President and Chief Executive Officer, Exelon Corp.*

Good morning, Dan.

A

Dan L. Eggers

*Analyst, Credit Suisse Securities (USA) LLC (Broker)*

Chris, you've been talking for a while about ways or opportunities to deploy capital and all the alternatives that were out there with the goal of visible earnings and consistency and repeatability. Can you just walk through how you came to a regulated utility acquisition like this versus maybe renewal investments? And some of the things you've talked about maybe how the returns compare to this versus what else you would have seen in the market?

Q

Christopher M. Crane

*President and Chief Executive Officer, Exelon Corp.*

Sure. We're in the market on all sides, the renewable opportunities that are coming to the market, the conventional generation opportunities; we continue to hunt for value in that area. We've seen some of the conventional stuff go at a higher premium that we're not willing to commit to but we'll stay in that market. As Jack said, we have considerable flexibility that's been created on the balance sheet by this acquisition. And it will not deter us from looking at opportunities when there is a willing partner on the other side to sell their assets. It is in a large part, opportunistic.

A

We were able to find a partner that saw the strategic sense in creating scale. And so, it's more about timing and opportunity, but we are still looking on a regular basis at anything that comes to the market or in conversations with folks that we think should come to the market. But we'll continue to work on that. This will not deter or distract us from any of the power side. We'll have an integration organization that will be led under Bill von Hoene, but it will lean heavily on the Exelon utilities to come up with the integration plan.

In the meantime, under Ken Cornew and Joe Nigro's leadership, we'll continue with the GenCo strategy independently, as we operate these businesses independently and we think there will be future opportunities that will come our way and we'll be able to integrate them into our platform equally as efficiently as we will do this transaction.

Dan L. Eggers

*Analyst, Credit Suisse Securities (USA) LLC (Broker)*

Q

Okay. So, I guess maybe Jack, you can walk through how the balance sheet works that you're able to add that level of debt and still keep a lot of flexibility apparently for other investments and what kind of assurance you've gotten from the Agency so far?

Jonathan W. Thayer

*Executive Vice President and Chief Financial Officer, Exelon Corp.*

A

Sure, Dan. As you're aware, historically, the rating agencies have looked at Exelon Corporate and Exelon Generation on a combined basis. And our target FFO to debt metrics, if I was to pick one agency, S&P, as an example, have largely viewed the corporate entity and the merchants part of our business as one and the same.

With the acquisition of Pepco Holdings and the rebalancing of the earnings mix and the rerating of the risk perception related to Exelon Corporate, what it affords is the opportunity to add significant incremental leverage at the holding company that absent this transaction we would not have otherwise been able to do. So as we think about adding \$3.5 billion of corporate debt at the holding company in an historic interest rate environment where we can lock in long-term rates at very attractive levels, we see that married up with the opportunity to invest in growing rate base at Pepco Holdings and the opportunity to marry that up with a strong operating overlap. We see this as a uniquely opportune time to tap the debt markets, but also add a highly accretive investment to our overall mix.

Christopher M. Crane

*President and Chief Executive Officer, Exelon Corp.*

A

Let me add one thing to that, Dan, just to go back to some of the things we've talked about. When we started to communicate last fall our investment in the utility business, the \$15 billion, part of the strategy here is to have the utilities be able to cover our commitment to the shareholders on the dividend within the next couple of years. So we've right sized the dividend appropriately for the business. The utilities will be able to service the debt and the dividend as needed at the holding company and we can have more flexibility on free cash flow off of the Generation business to continue to grow that side of the business.

So from a strategic approach, this advances where we were heading and strengthens our view on the strategy and the structure of the entity while being able to use that commodity base somewhat more cyclical to capture the upsides where we see fit.

Dan L. Eggers

*Analyst, Credit Suisse Securities (USA) LLC (Broker)*

Q

Okay. And I guess just going back to my first question and I'll stop it. When you look at kind of the value return of this to shareholders relative to the other options that have been out in the market, can you just maybe give a context of how the comparability of accretion or net value return worked for this deal relative to the other places where you could have deployed capital that you've seen or that you see in the market today?



**Christopher M. Crane***President and Chief Executive Officer, Exelon Corp.*

A

Yeah, I'll take a couple of the typical CCGTs that you would have \$750 million to \$1 billion that have gone across the market. You can see accretion of a couple pennies at best on those type of assets for something like this, where we are using some equity, and using more debt, you can see the accretion of \$0.15 to \$0.20, it's powerful. And so, I think you could probably get fairly strong accretion if we were dealing with a fleet of assets to come in. On the renewable side, the investment thesis is not as much about EPS, as it is about free cash flow, that helps enable us to do other things. So, Jack, if you want to provide any clarification any more, go ahead.

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

A

Sure. Dan, I think as Chris mentioned, here we have a growing – or an opportunity to invest in growing rate base, and opportunity for sustained investments – and continued investment further rate base opportunities versus, as Chris mentioned, once you get through the tax attributes of renewables investment, it really does have a very modest, and in some cases, negative EPS contribution further out the curve. And there it's about velocity of return of capital and seeking out further opportunities to invest relative to here, we have a sustained opportunity to invest in infrastructure in a way that earns us very attractive returns that on a standalone basis, that the incremental leverage at the holding company, makes that much more beneficial when it comes to dropping EPS down to the bottom-line for our shareholders.

**Dan L. Eggers***Analyst, Credit Suisse Securities (USA) LLC (Broker)*

Q

Okay. Thank you, guys.

**Christopher M. Crane***President and Chief Executive Officer, Exelon Corp.*

A

But just to be clear, this does not preclude us from other growth opportunities on the other side of the business. It's a good opportunity at the time that we're able to take advantage of and it further moves our strategic focus down the road as we've discussed previously. Next question?

**Operator:** Certainly. Your next question coming from Greg Gordon [ISI].

**Greg Gordon***Analyst, International Strategy & Investment Group LLC*

Q

Thanks. Hi guys.

**Christopher M. Crane***President and Chief Executive Officer, Exelon Corp.*

A

Hey Greg.

**Greg Gordon***Analyst, International Strategy & Investment Group LLC*

Q

I've got one question on the merger and one question on the quarter. So, on the transaction, obviously Mr. Rigby and his team, despite doing a pretty good job running their business have had a hard time getting the type of rate relief they've needed to move their earned returns on equity up to their authorized return. When you think about the base case forecast which you're using to give us the accretion numbers, what do you assume the ROE trends



are and how much different are they under the Exelon merger case than they are under the standalone Potomac case?

**Jonathan W. Thayer**

*Executive Vice President and Chief Financial Officer, Exelon Corp.*

A

Greg, it's Jack. I'll answer that question. In terms of what we've assumed in our operating model when calculating the synergies, very much akin to Pepco Holdings' projections that they used and recently rolled out in their communications at their Analyst Day. It's very consistent with the IBIS projections for the company on a going-forward basis. So to the extent that we are able to, through synergies to speed the opportunity to earn allowed ROEs that we're able to through continued performance improvements and improved storm response and other elements to earn higher allowed ROEs from our jurisdictions in New Jersey, Delaware, Washington D.C. and Maryland that would all be upside to the transaction. Obviously, that's something that we'll be targeting, as we're integrating the companies and integrating PECO's utilities into our operating model. But for right now, in our transaction economics, we just assume that Pepco continues on the path that it was and is now.

**Christopher M. Crane**

*President and Chief Executive Officer, Exelon Corp.*

A

Joe, do you want to – Joe?

**Ravi Ganti**

*Vice President-Investor Relations, Exelon Corp.*

A

Well, I'll let Joe provide some color to that.

**Joseph M. Rigby**

*Chairman, President & Chief Executive Officer, Pepco Holdings, Inc.*

A

No. I think as we went through the due diligence process that as Jack mentioned that obviously, we provided all the information and I think what I'm hearing, Jack say is that there was no kind of remarkable upside that was assumed and the opportunity I think to realize the synergies and to be able to work that into the forecast, I think is going to have a positive impact on the actual earned ROEs.

**Greg Gordon**

*Analyst, International Strategy & Investment Group LLC*

Q

Thank you, guys. Now segueing into the quarter, looking at slide 9, which is the 2013 versus 2014 comparison at ExGen, did you pick up the negative deltas into \$0.09 from lower realized energy prices, higher procurement costs, \$0.05 from nuclear and fossil output. So can you explain to us how we should think about this because clearly, the retail business probably was on the wrong side of power price volatility in the quarter in terms of having a lot of demand and having to manage variable load risk? And at the same time, your lowest cost resources were not available. So, can you kind of break down what happened that was sort of uniquely in the retail book in that sort of \$0.09, then I think it's probably simpler when we think about the \$0.05 just in terms of outage days, but can you explain to us exactly what happened?

**Christopher M. Crane**

*President and Chief Executive Officer, Exelon Corp.*

A

I'll have Joe take that.

Joseph Nigro

*Executive Vice President, Exelon; CEO, Constellation, Exelon Corp.*

A

Hey Greg, there is a number of things that are moving around when you think about – I assume your question is Q1 2013 versus Q1 2014?

Greg Gordon

*Analyst, International Strategy & Investment Group LLC*

Q

Correct.

Joseph Nigro

*Executive Vice President, Exelon; CEO, Constellation, Exelon Corp.*

A

When you think about it, the best thing is we had – when you think about the way we hedge our portfolio, we had substantially lower energy benefit in PJM. Our growth in the Midwest and the Mid-Atlantic quarter-over-quarter when you think about 2014 versus 2013, the big driver in the Midwest was the roll off of the ComEd swap. In 2014, we're still in the first quarter in 2013.

In the Mid-Atlantic, it was just driven by energy prices. There was an offset to capacity that was a positive pickup, but didn't reduce that at all from the lower energy benefit. In addition to that, as you see on the slides, we had some increase in nuclear output in [indiscernible] (28:46) output. In 2014, again, we had a roll off of a long-term contract in the Midwest in Kincaid that played into that as well.

And then when we get into the other regions, there's a lot of moving pieces associated with it. In New England, with a restructuring of our fuel contract from Mystic, we had a lot less generation output in New England than we did in 2013. And then in ERCOT, just like everyone else, we faced some continuing outages in the first quarter as well as some gasoline availability down there that drove some [indiscernible] (29:18). So there's a number of moving pieces. On the retail side, it wasn't a material quarter [indiscernible] (29:25).

Greg Gordon

*Analyst, International Strategy & Investment Group LLC*

Q

Okay. So when I think about the \$0.09, there is not a meaningful portion of that, let's say where you were upside down in your retail book, it's other factors like the roll-off of contracts?

Joseph Nigro

*Executive Vice President, Exelon; CEO, Constellation, Exelon Corp.*

A

Our retail book – we manage it as we talked to you about previously. We manage all the finance risk inherent in our portfolio in our wholesale book of business. So when you think about it, what we're doing is reflecting all of that in our hedge disclosure and you see that. I would tell you that we face the same load charges at PJM, for example, that everyone else did in the first quarter. But we also had an offsetting benefit of having generation and having the generation to load strategy did benefit us some, although we did incur net cost to serve load, but that includes our wholesale load as well.

Greg Gordon

*Analyst, International Strategy & Investment Group LLC*

Q

Okay. Thank you.

Christopher M. Crane  
*President and Chief Executive Officer, Exelon Corp.*

A

Next question, please.

**Operator:** Yes, sir. [Operator Instructions] Your next question comes from Steve Fleishman [Wolfe Research].

Steve I. Fleishman  
*Analyst, Wolfe Research LLC*

Q

Yeah. Hi, good morning.

Christopher M. Crane  
*President and Chief Executive Officer, Exelon Corp.*

A

Hey, Steve.

Steve I. Fleishman  
*Analyst, Wolfe Research LLC*

Q

Hi. Could you maybe just be a little more explicit on the financing plan for the different pieces and how much stock versus converts versus debt? And then also the asset sales that you might most likely look at?

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

A

Sure, Steve. This is Jack. So with respect to the financing side of the equation as we've discussed, we'll use a mix of convertibles as well as straight common. We're still finalizing, and we'll finalize the mix of that as we go to market. And we'll size that so that we're tapping the substantial liquidity that exists in both those instruments and leverage the opportunity to tap different investor bases as we do so. Clearly the benefit of the mandatory convert is the equity credit we receive while retaining opportunity to share in the upside related to share performance during the duration of the convert.

On the asset sales side, as we mentioned, we anticipate roughly \$1 billion of proceeds from asset divestitures that we would use to fund this transaction. We would anticipate that those assets are in our non-core elements of our business. So, when we think about maintaining the exposure to a power recovery, where that exists most significantly is within our nuclear fleet. We would be looking to sell certain fossil assets that have appreciated considerably in value. And given the valuation methodologies in terms of how we're valued relative to IPPs or private equity firms, those assets candidly are likely to be more valuable in a private equity firm or IPPs' hands, who can use significantly more leverage than we can in our capital structure. And the loss of earnings associated with those assumed divestitures is incorporated into the \$0.15 to \$0.20 of earnings accretion calculation. So, clearly we see that as an opportunity to sell assets that on a relative basis contributes less earnings to our overall EPS and invest those proceeds in a growing utility investment.

Steve I. Fleishman  
*Analyst, Wolfe Research LLC*

Q

Okay. And just a clarification on the asset sales. Are those assets that likely had debt on them as well, so that we should use the \$1 billion as like a mix of debt and equity or is the \$1 billion replacing what otherwise would be equity issuance for the deal?

Jonathan W. Thayer

*Executive Vice President and Chief Financial Officer, Exelon Corp.*

A

The debt that we have is at Exelon Generation. So there's not a planned level of specific debt. We would anticipate that that \$1 billion of proceeds is in lieu of equity used in the transaction.

Steve I. Fleishman

*Analyst, Wolfe Research LLC*

Q

Okay. And last question on this. Will you probably wait till you have – are close to all approvals to execute on these funding plans?

Jonathan W. Thayer

*Executive Vice President and Chief Financial Officer, Exelon Corp.*

A

The bridge is in place for the duration of the approval process. We have the opportunity to issue at any time during that bridge being in place and I think we'll, as we get further into the integration process into the regulatory approval process, we'll stare down and look at when is the appropriate time to look to issue equity. Certainly we have some big valuation events coming up, the upcoming capacity auction, a summer with a tightening supply-demand mix and an upcoming winter as well. So we have a lot of flexibility around when we might think about tapping the equity markets and the convert markets.

Christopher M. Crane

*President and Chief Executive Officer, Exelon Corp.*

A

Just one more thing to add on to that, Steve. The asset rationalization was going forward with or without this. On the annual basis, we look at core assets, their valuation, market valuation. We look at non-core assets and we had determined that we were going to adjust the portfolio regardless of this.

Steve I. Fleishman

*Analyst, Wolfe Research LLC*

Q

Okay. Thank you.

Christopher M. Crane

*President and Chief Executive Officer, Exelon Corp.*

A

Thank you.

**Operator:** Our next question comes from Julien Smith (sic) [Julien Dumoulin-Smith] [UBS Securities].

Julien Dumoulin-Smith

*Analyst, UBS Securities LLC*

Q

Hi, good morning.

Jonathan W. Thayer

*Executive Vice President and Chief Financial Officer, Exelon Corp.*

A

Good morning, Julien.

Julien Dumoulin-Smith

*Analyst, UBS Securities LLC*

Q

So a quick question, if you will, kind of going back to Dan's first starting point here. What is the ideal composition of regulated versus merchant? I mean if you think about the company down the line, are you going to follow your peers on the diversified side and become more regulated, or ultimately, do you think about yourselves as having a meaningful commodity kicker yourself?

Christopher M. Crane

*President and Chief Executive Officer, Exelon Corp.*

A

Yeah. We still are very supportive of the commodity side of the business. This is not a mandatory diversification that we had to do because of any balance sheet tightening. It is about creating value and the opportunity that we have with it. There is not a fixed 65%, 55% regulated to merchant. What we learned in the last downturn of the commodity cycle that we're coming out of is that we need to make sure that our commitments are sized to be able to be sustainable and that the investment thesis and the strategy from both sides of the business can stand on their own.

So what we want to have is regulated revenue that continues to grow at a reasonable CAGR as we make our investments in that side that support any debt or dividend requirements that we have at the holding company, which we think is a rational strategy on how we should size and pursue and invest going forward. We do not want to over lever as a holding company that to point that the utility businesses that we're investing in or acquiring would not be able to service that requirement. We don't want to size the dividend to a point that it can't be reasonably serviced to provide value back to the shareholders and we also want to have the flexibility, which this transaction maintains for us to be able to invest in the merchant side, the competitive side of the business, in electric and gas assets as we go forward.

Julien Dumoulin-Smith

*Analyst, UBS Securities LLC*

Q

Great, excellent. Now second question here, a little bit – going back to the balance sheet, when it comes to credit metrics, I'd be very curious, how much incremental leverage beyond the transaction does this create by shifting your regulated profile?

Jonathan W. Thayer

*Executive Vice President and Chief Financial Officer, Exelon Corp.*

A

Julien, as you might anticipate, we've been in dialogue with the agencies and in the re-risk rating of the company pro forma for this transaction and the ability for both utility as well as merchant cash flows to service the debt at the holding company, we had left ourselves room to make further incremental investments, whether they'd be regulated or merchant in nature. So, we clearly could have leaned more heavily on the fixed income markets and made this transaction even more accretive. We felt the appropriate and balanced approach was to leave ourselves powder because as we've experienced from time-to-time particularly in moments of significant volatility, whether it'd be in the retail business or whether it'd be in other parts of the merchant chain, it's generally good to have powder, should opportunities present themselves.

Julien Dumoulin-Smith

*Analyst, UBS Securities LLC*

Q

Then how does that jive with dividend expectations, I mean obviously it's a more regulated profile, what's the thought process?

Jonathan W. Thayer

*Executive Vice President and Chief Financial Officer, Exelon Corp.*

A

I think the thought process is post this transaction, the utility can be 100% funded – or sorry, the dividend can be 100% funded from the utility. This speeds that path – we were already on that path. This clearly speeds that and it gives our Board of Directors significant flexibility around how they – with Chris' guidance, may choose to return capital to shareholders.

Julien Dumoulin-Smith

*Analyst, UBS Securities LLC*

Q

But you're not committing to pay out off of the utilities or anything like that?

Jonathan W. Thayer

*Executive Vice President and Chief Financial Officer, Exelon Corp.*

A

We are not.

Julien Dumoulin-Smith

*Analyst, UBS Securities LLC*

Q

Okay. Great. Well, thanks again, guys. Good luck.

Christopher M. Crane

*President and Chief Executive Officer, Exelon Corp.*

A

Thanks.

Jonathan W. Thayer

*Executive Vice President and Chief Financial Officer, Exelon Corp.*

A

Thank you.

Christopher M. Crane

*President and Chief Executive Officer, Exelon Corp.*

A

Next question please.

**Operator:** Your next question comes from [ph] Paul Rizzon. (40:02)

Q

Good morning.

Jonathan W. Thayer

*Executive Vice President and Chief Financial Officer, Exelon Corp.*

A

Good morning, [ph] Paul. (40:04)

Q

First of all, congratulations, Joe, it's a nice swan song.

Joseph M. Rigby

*Chairman, President & Chief Executive Officer, Pepco Holdings, Inc.*

A

You bet. It's a great opportunity for all of our stakeholders. Exelon is a great, great company. We're very excited about this.

Q

I'm just wondering. I know Pepco and BGE tried to get married once and Exelon's got a history in New Jersey. Have you had any dialogue with regulators?

Christopher M. Crane

*President and Chief Executive Officer, Exelon Corp.*

A

We've had some initial outreach with regulators to explain what this value proposition is for their stakeholders. So, we learned a lot from some things that worked and some things that haven't worked in the past. We've put that into our regulatory strategy in Maryland when we were able to secure the acquisition at Constellation and BGE in 10.5 months. Our regulatory team is ready to approach this one in the same way with making sure we get our filings in. There's no delay on that, making sure we engage and open the dialogue up with the regulators. The regulators have a tough job to do. They have to prove that this is in the best interest of the consumer, but we believe that we have prepared a package that shows that, by our commitments that we're making and we'll engage. I wouldn't expect to hear a reaction from any regulator publicly. They have to see what we put in writing, what we offer, they have to go through the process. This is a tough job for them to do, but we, at the end of the day, see a success path or we wouldn't be doing it.

Q

Again, just a follow-up question, shifting gears, can you just give us an update on Illinois and any movement on legislation that would kind of ascribe a little more value to the value of nuclear?

Christopher M. Crane

*President and Chief Executive Officer, Exelon Corp.*

A

Yeah, that story has gotten away from us. We've continued to say we are not looking for legislation for a bailout of the competitive nuclear fleet in Illinois. We believe that is a market issue that our units are not being compensated for the firm fixed fuel that they provide in the capacity market and we're not being compensated for the clean carbon free generation that they're providing. So our focus on creating value for the nuclear fleet is more around market design and at a federal level. We pushed hard that above – and for a few years talking about the unintended consequences of the PTC and the concentration of excess wind generation and the pricing issues that it has in the Midwest, primarily, that is still what we're pushing on. We said a couple of years ago it was going to be a problem, it has become a problem. There is a few ways that we can get compensated for that, that as you all know we're working on the market issues and the capacity market in PJM, those changes coming to fruition, some of the short-term changes. And the work that we need to do in the stakeholder community to recognize the vulnerability that the grid has – will be incurring with a dependency on gas and we saw that during the polar vortex. So, when we load a core, we load it for 18 months to 24 months. It can run through any weather situation. It's not dependent on fuel being delivered on an hourly basis or wind blowing and so, that's the stuff we're working on.



We believe in a competitive market. We don't believe in a subsidized market. We need to be compensated for the value proposition on the plant and that should not be a bailout from the state.

Q

Thank you.

Christopher M. Crane

*President and Chief Executive Officer, Exelon Corp.*

A

Next question, please.

**Operator:** Your next question comes from Jonathan Arnold [Deutsche Bank].

Jonathan P. Arnold

*Analyst, Deutsche Bank Securities, Inc.*

Q

Hi. Good morning, guys.

Christopher M. Crane

*President and Chief Executive Officer, Exelon Corp.*

A

Good morning.

Jonathan W. Thayer

*Executive Vice President and Chief Financial Officer, Exelon Corp.*

A

Good morning.

Jonathan P. Arnold

*Analyst, Deutsche Bank Securities, Inc.*

Q

Just curious, as you sort of think about the company post this transaction and the business mix issues you've addressed, does this give you the capacity to be a little less hedged and sort of bet more heavily on your favorable view of the markets? And maybe this would be an opportunity to just update us on what you – how you're seeing liquidity in those forward curves...

Christopher M. Crane

*President and Chief Executive Officer, Exelon Corp.*

A

From a macro level in servicing our commitments on the value of the dividend and making sure we maintain a strong balance sheet, this does contribute to that focus. I'll let Joe talk about the liquidity and where we're at with the hedging strategy.

Joseph Nigro

*Executive Vice President, Exelon; CEO, Constellation, Exelon Corp.*

A

Hey, Jonathan, good morning. There is a couple of things with that. We have seen liquidity begin to pick up in the marketplace post the first of the year. That's true pretty much across all the regions, and in particular, important for us. We have seen liquidity improving [indiscernible] (45:31). And we believe a lot of that is on the back of what happened in January and February with the polar vortex and some of the price appreciation, and more importantly, the volatility appreciation we saw and some of the retailers coming back to the market.

I think from a hedging perspective, you really have already see us take the approach of being less hedged. If you look at our disclosure, normally this – when you look at 2015, by the end of the first quarter of 2014, we should have been about 75% hedged. Our total portfolio is approximately 65% and we've been clear that about 10% of that is in natural gas. So, we really have about 20% incremental exposed to the power market and we have about half of that, so about 10% incremental as to where we should be in 2016, exposed to the power market. So, we've really looked at already beginning to be more aggressive and we work very closely taking into account what our balance sheet commitments are and making sure that we're aligned to all of that.

Jonathan P. Arnold

*Analyst, Deutsche Bank Securities, Inc.*

Q

So, there is an angle that this is giving you, having a more regulated base, but it gives you the ability to take a little more risk in the merchant business?

Christopher M. Crane

*President and Chief Executive Officer, Exelon Corp.*

A

Jack, you want to.

Jonathan P. Arnold

*Analyst, Deutsche Bank Securities, Inc.*

Q

[indiscernible] (46:52)

Christopher M. Crane

*President and Chief Executive Officer, Exelon Corp.*

A

Yeah, I agree with that.

Jonathan W. Thayer

*Executive Vice President and Chief Financial Officer, Exelon Corp.*

A

Jonathan, clearly, the message on our side is, we have faith and belief in the power recovery. We have maintained substantial exposure to that power recovery. We're seeing in the first quarter and you saw in our hedge disclosure the meaningful uplift and impact of improving prices. We've seen significant improvement in prices subsequent to that and anticipate further market recovery, particularly in the NiHub market as we go further out the curve.

From a balance sheet flexibility standpoint, we already retained considerable flexibility in our ability to lag ratable where we didn't leave fundamentals supported of current marks. We've exercised that perspective, and most importantly, we've been right in exercising that perspective. And as Joe mentioned, we continue to keep that considerable exposure in place as we anticipate further market recoveries. So, in all instances, while this does improve our earnings mix of regulated versus merchant, we do anticipate, as the power market recovers, we'll get to that roughly balanced 50-50 mix that Chris has communicated as being roughly optimal for our business.

Christopher M. Crane

*President and Chief Executive Officer, Exelon Corp.*

A

And just to be clear, as I said earlier, the strategy that we were moving to is to have a value return proposition through our dividend that is funded to a more classical or typical methodology with the regulated entities dividending up to the Holdco and in those entities servicing any debt that would be at the Holdco. So naturally that does allow us – that those commitments are made that allows us flexibility on the generating side to merge as

the analytics would tell us to on being able to capture the upside or if we think we're high that we can – we could hedge out further.

Jonathan W. Thayer

*Executive Vice President and Chief Financial Officer, Exelon Corp.*

A

Yeah. Chris, certainly just one caveat. Certainly in the near term, both the merchant and utility cash flows will support the holding company debt as we see growth in the earnings power at the utilities that the utilities will shoulder more of that.

Christopher M. Crane

*President and Chief Executive Officer, Exelon Corp.*

A

Right. It's the long term, right.

Jonathan P. Arnold

*Analyst, Deutsche Bank Securities, Inc.*

Q

Okay. Could I ask when you say \$250 million, just this detail on the merger stuff, \$250 million of net synergies, is that net of tax, net of cost to achieve, net of something else, can you just kind of frame that number?

Jonathan W. Thayer

*Executive Vice President and Chief Financial Officer, Exelon Corp.*

A

That is separate and distinct from cost to achieve. So as we think about cost to achieve and then the realization of those synergies, we'd expect to retain, roughly a third of the overall savings. We'll get to a run rate synergy number of approximately \$120 million to \$140 million. We'd anticipate that our customers are the net beneficiaries of two-thirds of those savings and that we would keep roughly a third for the benefit of our shareholders.

Jonathan P. Arnold

*Analyst, Deutsche Bank Securities, Inc.*

Q

Okay. So, that run rate is that 2017, that's the number in the 2017, \$0.15 to \$0.20. Is that?

Jonathan W. Thayer

*Executive Vice President and Chief Financial Officer, Exelon Corp.*

A

I would say.

Jonathan P. Arnold

*Analyst, Deutsche Bank Securities, Inc.*

Q

or is that further out.

Jonathan W. Thayer

*Executive Vice President and Chief Financial Officer, Exelon Corp.*

A

First of all, yes, and second of all as you do the math, you'll see synergies is a very small element of the accretion in this transaction. It's really the opportunity for incremental leverage at the holding company that this transaction affords. It's the monetization of certain assets at a higher value than what would be implied in our PE multiple. And synergies are an important but very modest contributor to that \$0.15 to \$0.20.

Jonathan P. Arnold

*Analyst, Deutsche Bank Securities, Inc.*

Q

Okay and how should we think about the customer fund? Is that something you would sort of fund upfront as almost part of the purchase price or something that would kind of be funded over time?

Christopher M. Crane

*President and Chief Executive Officer, Exelon Corp.*

A

It is intended to be given upfront after approval as we integrate, so it is part of the cost to achieve.

Jonathan P. Arnold

*Analyst, Deutsche Bank Securities, Inc.*

Q

Okay. I think that's – could I just ask one other thing and I'm sorry if you've touched on this, but what kind of assumption are you making about earned returns at the Pepco Utilities?

Jonathan W. Thayer

*Executive Vice President and Chief Financial Officer, Exelon Corp.*

A

Jonathan, in term of earned returns, our internal forecasts are very much akin to the internal forecasts of Pepco Holdings. It's very much in line with the consensus estimates as you look with IBIS in terms of – from a synergy standpoint, if that allows us to speed, getting closer to that earned return to reduce the regulatory lag. If the operational benefits and uplift from improved operations, supports higher allowed returns, all of that will be upside to the economics that we've communicated to you as part of this presentation.

Jonathan P. Arnold

*Analyst, Deutsche Bank Securities, Inc.*

Q

Okay. Thank you very much, guys.

Jonathan W. Thayer

*Executive Vice President and Chief Financial Officer, Exelon Corp.*

A

I think we have time for one more call.

Christopher M. Crane

*President and Chief Executive Officer, Exelon Corp.*

A

Yeah.

**Operator:** Yes. Your next question comes from Michael Lapidès.

Jonathan W. Thayer

*Executive Vice President and Chief Financial Officer, Exelon Corp.*

A

Good morning, Michael.

Christopher M. Crane

*President and Chief Executive Officer, Exelon Corp.*

A

Michael?

**Operator:** If your line is on mute, please un-mute your line.

Ravi Ganti

*Vice President-Investor Relations, Exelon Corp.*

Okay. We have.

Jonathan W. Thayer

*Executive Vice President and Chief Financial Officer, Exelon Corp.*

I think, operator, if you'll go to the queue for the last and final caller.

**Operator:** Yes, sir. One moment. Your next question is from Ali Agha.

Ali Agha

*Analyst, SunTrust Robinson Humphrey*

Good morning. [Suntrust Robinson Humphrey]

Jonathan W. Thayer

*Executive Vice President and Chief Financial Officer, Exelon Corp.*

Good morning.

Christopher M. Crane

*President and Chief Executive Officer, Exelon Corp.*

Good morning, Ali.

Ali Agha

*Analyst, SunTrust Robinson Humphrey*

Chris, one question. How comfortable are you with the new regulatory jurisdictions you are getting into? Obviously Maryland, you're very familiar with, but the other ones have been challenging to say the least, and I'm sure you've been observing them. So what gives you sort of confidence that you can handle those different than the way they've been handled in the past?

Christopher M. Crane

*President and Chief Executive Officer, Exelon Corp.*

Well, we think the way that Joe has taken the company, Pepco, in the last couple of years, significant investment in reliability, continued to develop a stronger relationship in his tenure in the position, we're comfortable in the direction they're heading. We understand the expectations of the regulator, and we'll continue on the path that Joe has taken the company in the last few years.

The regulatory process is not easy in any jurisdiction. And as I mentioned earlier, there's a significant responsibility upon the regulator to make sure that the utilities are providing the service level at the right economic point and with reliability and safety of the system. We have to prove that we can do that in this case to gain approval, and then we have the responsibility of maintaining our operations at that level to continue. So we believe in, we're strongly supportive and believe what Joe has done and what the Pepco team has been doing in their service areas, as the path to continue on and we believe as has been shown, the Pepco standalone that things are very much improving.

**Ali Agha***Analyst, SunTrust Robinson Humphrey*

Q

A separate question, in the past you told us about that \$2 to \$4 uplift that you believe fundamentals justify in the forward curves, where do you think we are in that today?

**Christopher M. Crane***President and Chief Executive Officer, Exelon Corp.*

A

Yeah, Joe will talk about this.

**Joseph Nigro***Executive Vice President, Exelon; CEO, Constellation, Exelon Corp.*

A

As Jack mentioned earlier, we see material improvement since year-end in the forward curve. And if I look at NiHub, we're up about \$5.50 in and around the cost base since the first of the year and we're up about \$7.50 at West Hub. You see in our hedge disclosures, that we're up about \$200 million and \$400 million respectively in hedged gross margin, through 3/31 2015 and 2016. We're up about another \$300 million in 2015 and approximately \$400 to \$450 million in 2016 since 3/31.

When you think about the upside, there's a big seasonal shape to it at this point, given that we've seen a big move in the winter gas basis and the underlying winter power prices. But we still think in the 2015, 2016 time period there's less than \$2 of upside remaining at NiHub, but there's still upside on an annualized basis.

At the West Hub, we think that most of it is priced in, but it's very seasonally driven. As you get out to 2017 and 2018, we see a little more upside at NiHub than we do in 2015 and 2016 and a little more upside at West Hub than we do in 2015 and 2016. So, it's really seasonally driven at this point and we're taking an opportunity as we do hedge into the power price move to make sure that we're matching where we think the market has moved, so our hedging is matching. We're aligned to our views in what the market has done.

**Ali Agha***Analyst, SunTrust Robinson Humphrey*

Q

Got it. Last question, Chris, and I'm picking up from what you guys were saying. I mean the markets are moving, the commodity prices are moving in your favor, your thesis seems to be coming together. Stock's been obviously rallying as a result of that. From a timing perspective, do you think perhaps – was this the right time to be adding more regulated mix given that this is a 12-month to 15-month approval process? Kind of has its own levels of uncertainty associated with that, you have let this thing run the way it had been running and has been running?

**Christopher M. Crane***President and Chief Executive Officer, Exelon Corp.*

A

Yeah. We're not distracting or deterring ourselves from the upside of the commodity market. With the way that this is being structured with opening up more of the balance sheet using a view by the rating agencies of the Holdco utilities allows us to do some cheap debt at this time to pick up more regulated revenue. There is an equity component, but it is not a significant component. If you did the math and Jack was explaining it earlier this morning, it's less than 10% of our share count that would equity would be issued for, you've still got somewhere of 90% of whatever the upside is that's coming from the power market.

So you have to be opportunistic. You have to be able to create value. This deal creates a significant accretion in earnings per share. It allows us structurally to be looked at differently by the rating agencies and we get to still when anything would come to the market that was a relative value deal, we'd still be able to transact on it and

continue to grow on that side of the business. So there was, if you can create value with accretion like this, I think the time is whenever it comes available. And if this was to distract us from the upside of the commodity recovery and the power recovery, we wouldn't have done it, but we can do both.

Ali Agha

*Analyst, SunTrust Robinson Humphrey*

Q

Good enough. Thank you.

Ravi Ganti

*Vice President-Investor Relations, Exelon Corp.*

Thank you. That brings us to the end of the call. Thank you very much.

**Operator:** Thank you. This does conclude today's conference call. You may now disconnect your lines.

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