



2019
MID-YEAR
ENERGY FORUM

Tuesday, October 15, 2019 – Wednesday, October 16, 2019
Renaissance Downtown Hotel • Washington DC

Closing General Session: *What Investors Want*

The Courts have long held that the Commission, when establishing regulated rates, must consider what investors require. But what do investors require? This panel will be a frank discussion about what investors want from their investments in regulated companies. What drives their decisions to deploy capital and what challenges do they see on the horizon? The discussion will address whether investors are avoiding certain sectors regulated by FERC, how Wall Street currently views regulated risks and whether there are opportunities for more productive dialogue between regulators and investors.

Speakers:

Davis A. Paz, *Senior Vice President*, Wolfe Research

Tom Abrams, *Analyst and Investor #ONO*, EMRI Capital



EBA Mid-year Closing General Session:

What Investors Want

Speakers:

Tom Abrams (Vice President, Principal Content Manager at **FactSet**)

David A. Paz (Senior Vice President, **Wolfe Research**)

David Maccarrone (Managing Director, **JP Morgan**)

Moderator:

Phil Mone (Of Counsel, **Van Ness Feldman LLP**)

Tom Abrams

Vice President, Principal Content Manager

FactSet

What do investors want?

1. Different kinds of investors
2. Bull market vs. Bear market
3. Investor preferences evolve
4. Other factors can come into play

1. Different kinds of investors

- Long only
- Hedge fund
- Quantitative
- Income
- Equity vs. Debt
- Private Equity
- Valuation approaches

2. Bull market vs. Bear Market

- Bull market
- Bear market

3. Investor preferences evolve

- Midstream example

4. Other factors specific to energy

- Portfolio manager allocations
- Macro unpredictable
- Growth vs. Value
- Structural changes
- % weighting
- Flow of funds

What do investors want?

- Different kinds of investor
- Bull market vs. Bear market
- Investor preferences evolve
- Other factors can come into play

David A. Paz
Senior Vice President
Wolfe Research

What investors want?

- Risk-adjusted returns
- Regulated utilities can offer an opportunity for stable returns
- But many examples show that is far from guaranteed (in either direction)

Value of regulated utilities

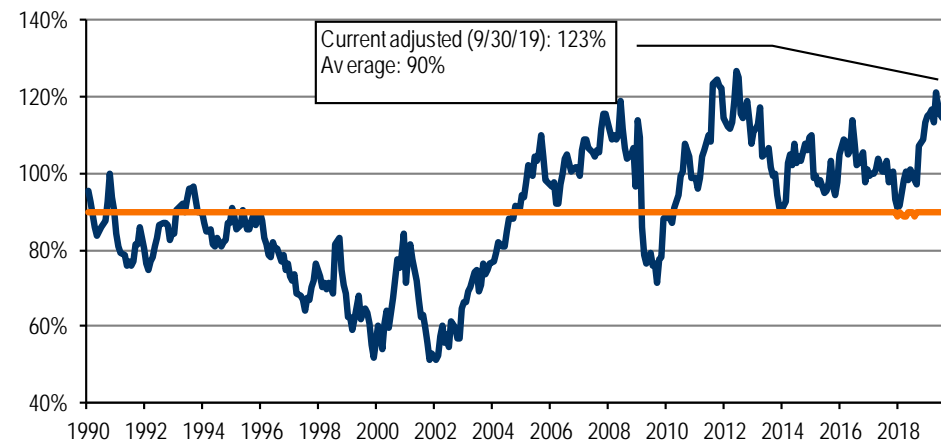
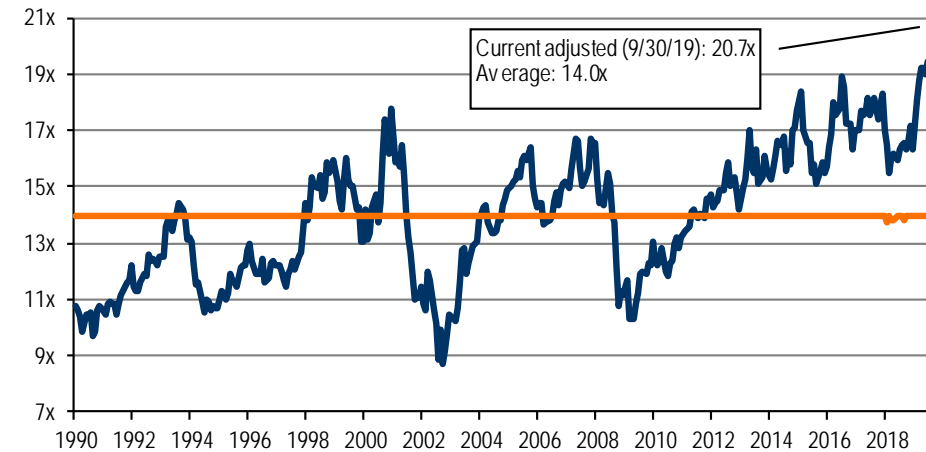
- Value = $f(\text{Risk and Return}) = f(\text{P/E multiple and Earnings})$ for regulateds
- Earnings driven by investment, allowed ROEs, authorized cap structure
- P/E determined by the “soft” factors:
 - Regulatory environment
 - Policy and politics
 - Project, event and operational risks
 - Pure play regulateds vs diversified
 - Macroeconomic and others
- Currently wide dispersion of US utility valuations (P/Es): 10x to 25x 2020 EPS

Any risk to utility investors?

- Regulatory
 - rate cases, disallowances, ROE reviews, MLP tax allowance recovery
- Policy and Politics
 - environmental regulations, deregulation, tax reform, credits, Gov/legislature initiatives
- Project, event and operational risks
 - examples: IGCC, nuclear cancellations, inverse condemnation in CA, mgmt. record

Regulated utility stocks not boring

- Since 1990, utility valuations have doubled but not linearly
- On average utilities have traded at discounts to the broader market but not in the last decade; near record relative values now



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| | | |
|---------------|-----|-------------------------------|
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| Peer Perform: | 43% | 2% Investment Banking Clients |
| Underperform: | 13% | 0% Investment Banking Clients |

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Q & A