Herbivores or Carnivores? M&A Pace Alive and Well

Summary

M&A doesn't look like it's going away. With two transactions already announced this year, and news reports that another company is considering its "strategic alternatives," the one question investors are asking is what are you: a Herbivore or a Carnivore? If a company has a market cap less than $10B, in all but a few cases, you're a herbivore and your valuation already reflects it. Otherwise, you're a carnivore. So long as there's a low interest rate environment and markets remain open, we expect M&A activity to remain robust.

Key Points

Not much has changed: (a) companies are paying to maintain/enhance underlying growth rates; (b) the purchaser's balance sheet capacity, low financing costs and tax position matter; (c) deals are all cash to the sellers; (d) trend toward more regulated earnings and cash flows remains intact; (e) targeted companies earning full ROEs is not a takeover impediment; (f) convergence mergers, *e.g.*, electric/gas where the buyers look to balance earnings streams and stabilize cash flow, are still relevant; and, (g) never underestimate the power of a regulator. They're underpaid and they listen to those that put them in the regulatory role. If a particular jurisdiction doesn't want an outsider buying the local utility, no matter how penal they've been to that utility, the deal is *never* going to happen. Mizuho posits that the NEE/HE, EXC/POM, and Macquarie/CNL deals will all fall through because all underestimated item (g).

Boards, pay attention to the market. As takeout multiples continue to soar - look at the prices and multiples paid for TE, GAS, PNY, EDE, and ITC - our view is that Boards have (i) a fiduciary duty to seriously evaluate proposal(s) or begin a process; (ii) explain why the standalone case exceeds the takeout alternative; and (iii) recognize this is not about job preservation for you or the management of the targeted company.

Who might be the next SMID target? *Gas centric*: Atmos Energy (ATO); New Jersey Resources (NJR); South Jersey Industries (SJI); Southwest Gas (SWX). The WSJ reported that Columbia Pipeline Group (CPGX) has held talks with TransCanada (TRP). CPGX was split from NiSource (NI) in order to make both companies more transaction-friendly. On the electric side, in addition to NI, our view is the Pacific Northwest and the entire Great Plains is ripe for consolidation. The question is whether the consolidation will be amongst regional strategic's or larger capitalized strategic's and/or infrastructure funds.

Company	Symbol	Price (3/11)	Rating Prior	Rating Curr	PT
American Electric Power Company, Inc.	AEP	$64.23	–	Buy	$65.00
Consolidated Edison, Inc.	ED	$73.27	–	Neutral	$66.00
Duke Energy	DUK	$77.76	–	Neutral	$72.00
Edison International	EIX	$70.40	–	Neutral	$69.00
Entergy Corp	ETR	$75.92	–	Neutral	$67.50
Eversource Energy	ES	$56.55	–	Neutral	$54.00
NextEra Energy, Inc.	NEE	$115.82	–	Buy	$125.00
PG&E Corporation	PCG	$57.32	–	Buy	$56.00
Pinnacle West Capital Corporation	PNW	$71.18	–	Neutral	$70.00
SCANA Corporation	SCG	$67.17	–	Buy	$71.00
TECO Energy, Inc.	TE	$27.43	–	Neutral	$27.50
The Southern Company	SO	$49.79	–	Neutral	$50.00
WEC Energy Group	WEC	$58.15	–	Buy	$63.00
Westar Energy, Inc.	WR	$46.43	–	Buy	$55.00

Source: Bloomberg and Mizuho Securities USA

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Consolidation in the utility sector is accelerating, driven by a combination of a low cost of capital, management teams confronting an earnings growth dilemma, and more than willing sellers. Most transactions in the past 18 months can be characterized by the following:

a) predominately 100% cash consideration paid;

b) price to current book multiples creeping above 2.0x, on average (DUK / PNY was 3.4x while SO/GAS was 2.0x);

c) target companies are mostly confined to the small and mid-cap universe;

d) the recent one-year forward P/E multiples averaging 22.4x, representing more than 19.9% one-day price premium, which includes in many cases the affected price (DUK / PNY was 30.6x and SO / GAS was 21.6x; Fortis/ITC was 23.9x and Algonquin/EDE was 23.1x);

e) balance sheet capacity of the acquiring company; and

f) deals are "friendly" in nature on the corporate side, notwithstanding regulatory considerations.

g) At this stage, we do not see the pace of deals abating anytime soon by the potential buyers, short of a material increase in interest rates that would influence underlying cost of capital and/or currency.

- **M&A, aka "Frothy Expectations"**
  - While the low interest rate environment is a key reason often cited as a driver that allows a buyer to pay high premiums and still make transactions accretive, <u>the elevated premiums are able to be paid because of materiality clauses</u>**.**
  - Loosely defined, the definition of materiality is whether the target company constitutes more than 20% of the acquiring company.
  - <u>If not material, the acquiring company's shareholder do not need to vote on the transaction, fairness opinions are not needed for the acquirer, and the burden of proof shifts to the plaintiff when transactions are litigated</u>. *These are all positives from the acquirers vantage but recent deals have investors questioning ROIC effects as much as earnings accretion*.
  - And while every company we know would indicate they're for sale at a 40% premium relative to the prior day close, <u>the reality appears that M&A premiums in 'material' transactions will probably trend to more rational levels</u>**.**

Question 1: What are the industry implications? Small and mid-cap utilities will likely be well bid for, in our view, and the consideration paid equates to a P/E multiple >20.0x. While the M&A pace is accelerating, consolidation in this sector remains slow to materialize given the plethora or regulatory, economic, and social considerations relative to other industries such as banking, pharmaceuticals, etc.

Question 2: What Works? In a nutshell, high-premium, socially-friendly deals. For regulated transactions, the states still tend to be the gating influence while potential market power considerations influence the merchant players, and to some degree the regulated players (*e.g.*, Duke/Progress). Importantly, the repeal of the Public Utility Holding Company Act removed many of the key ownership and investment limitations allowing non-strategics to invest in the sector.

Question 3: Who might be next? Sun Belt strategies and roll-ups remain the dominant theme. Publicly-traded companies in the Pacific Northwest appear ripe for consolidation. The recent announced deals have been in the Midwest and Upper Great Plains suggesting any number of these companies could trade to a larger capitalized strategic/infrastructure firm or amongst themselves. The companies in the Sun Belt region typically enjoy organic customer growth in excess of national averages. Sun Belt companies include: El Paso Electric (EE); OGE Energy (OGE); Pinnacle West (PNW), PNM Resources (PNM); Scana (SCG); and, Southwest Gas (SWX). These companies could also be consolidators or choose a “go it alone” approach.

The body of this note contains a toolkit for investors to make their own judgments regarding M&A: a listing of precedent transaction multiples; motivating factors, aka, change in control provisions; summary analysis of the utility growth dilemma; state regulatory commission jurisdictions with respect to M&A; and a summary of the four dominant merger themes over the past 20 years.

M&A, The Growth Dilemma and the Urge to Merge...

Broadly speaking the key issues affecting the Power & Utility companies that challenge earnings growth (and cash flow) include:

- **Volumetric growth:** The relationship between electricity use and GDP continues to deteriorate. The EIA predicts that between 2013-2040 annual electricity growth will be 0.9% while GDP will rise 2.4% per annum. The concerted efforts of distributed generation, demand response, and energy efficiency are expected to put downward pressure on electricity usage.

- **Rate base additions:** Does the promise of 4-6%, or better, rate base growth translate into commensurate EPS growth? How sustainable is this level of rate-base growth and what level of regulatory rate relief is required?

- **Non-fuel operating cost structures:** Can companies keep real non-fuel O&M costs flat or down, especially if inflationary pressures return? How do changes in discount rates affect pension expense?

- **These three aforementioned factors suggest that operating efficiencies, historically 1-2% of the EPS stream are no longer attainable, hence the need for incremental M&A in order to preserve underlying growth expectations promised to the investment community.**

- **Financial considerations:** Potentially rising interest rates lead to an overall increase in underlying cost of capital and typically reduces a Company's currency.

- **Commodity prices:** For the regulated companies, rising commodity prices normally mean rising bills for end-use customers, and given regulators influence to limit overall bill increases, this puts incremental pressure on the ability to raise underlying base rates through investment in the business. For commodity-sensitive companies, a rising price environment should help attendant cash flows given an increase in spark spreads, *ceteris paribus*.

- **Growth Gap:** Depending upon the company, the growth gap can be significant. At this stage, we cannot think of a single business strategy that solves this growth dilemma.

From a valuation perspective, the expectations of rising interest rates add additional pressure to a Company to improve its growth in order to maintain its present valuation. Management teams may well know that their internal growth plans may be difficult to achieve. Why not be acquired at a P/E multiple of 24.0x-plus if your internal growth plans suggest a fair value that's one or more turns below your current market valuation?

The current 2016 market P/E multiples of 16.0x (for large cap regulateds) implies underlying growth rates of less than 3.0%, despite Company-stated EPS growth goals of 4-6%, or better, for most regulated companies (2.0% risk free rate; 0.70 beta; 65% payout ratio, and 7.0% risk premium). The implication is that either the equity discount rate is artificially depressed or Company earnings growth profiles are not as strong as they appear.

This can be seen in Exhibit 1, the upper left quadrant, which implies 2.4-2.9% growth at a 16.0x multiple in today's rate environment. And while, conversely, the tables below could also imply that valuations are still "attractive" investors have not stepped up and paid for the discounted valuation. Remember, when risk is rising – and presuming, rightfully that rational investors require greater return for higher risk – these spread relationships should contract.

Exhibit 1: The Valuation Growth Dilemma

Implied Earnings Growth Rates Based on 2016 P/E [1]

		2016 P/E Ratio					
		13.0x	14.0x	15.0x	16.0x	17.0x	18.0x
	6.5%	1.5%	1.9%	2.2%	2.4%	2.7%	2.9%
	7.0%	2.0%	2.4%	2.7%	2.9%	3.2%	3.4%
Equity	8.0%	3.0%	3.4%	3.7%	3.9%	4.2%	4.4%
Disc Rate	9.0%	4.0%	4.4%	4.7%	4.9%	5.2%	5.4%
	10.0%	5.0%	5.4%	5.7%	5.9%	6.2%	6.4%
	11.0%	6.0%	6.4%	6.7%	6.9%	7.2%	7.4%

		2016 P/E Ratio					
		13.0x	14.0x	15.0x	16.0x	17.0x	18.0x
	50.0%	3.1%	3.3%	3.6%	3.8%	4.0%	4.1%
	55.0%	2.7%	3.0%	3.2%	3.5%	3.7%	3.8%
Payout	60.0%	2.3%	2.6%	2.9%	3.2%	3.4%	3.6%
Ratio	65.0%	1.9%	2.3%	2.6%	2.8%	3.1%	3.3%
	70.0%	1.5%	1.9%	2.2%	2.5%	2.8%	3.0%
	75.0%	1.1%	1.5%	1.9%	2.2%	2.5%	2.7%

Implied P/E Ratios Based upon Regulated Growth Rates [1]

		Growth Rate					
		2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
	6.5%	14.4x	16.3x	18.6x	21.7x	26.0x	32.5x
	7.0%	13.0x	14.4x	16.3x	18.6x	21.7x	26.0x
Equity	7.5%	11.8x	13.0x	14.4x	16.3x	18.6x	21.7x
Disc Rate	8.0%	10.8x	11.8x	13.0x	14.4x	16.3x	18.6x
	8.5%	10.0x	10.8x	11.8x	13.0x	14.4x	16.3x
	9.0%	9.3x	10.0x	10.8x	11.8x	13.0x	14.4x

		Growth Rate					
		2.0%	2.5%	3.0%	3.5%	4.0%	4.5%
	50.0%	10.2x	11.4x	12.8x	14.7x	17.2x	20.8x
	55.0%	11.2x	12.5x	14.1x	16.2x	19.0x	22.9x
Payout	60.0%	12.2x	13.6x	15.4x	17.6x	20.7x	25.0x
Ratio	65.0%	13.3x	14.8x	16.7x	19.1x	22.4x	27.1x
	70.0%	14.3x	15.9x	17.9x	20.6x	24.1x	29.2x
	75.0%	15.3x	17.0x	19.2x	22.1x	25.9x	31.3x

(1) Assumes an equity discount rate of 6.9% based on a regulated group payout ratio of 65% utilizing dividend perpetuity model

Source: Mizuho Securities USA Inc

Equity discount rate calculation assumptions: beta: 0.70; risk free rate: 2.00%; risk premium 7.0%

Source: Mizuho Securities USA Inc.

… Has Helped Heighten M&A Activity

Given the accelerating pace of M&A in the Power & Utility sector, many companies are reaching the conclusion that consolidation leads to shareholder value creation. If, as noted previously, there is no single strategy that solves the growth dilemma (and incremental growth strategies add to the execution risk profile), managements and their respective Boards should rightfully question whether it is time to sell the Company. If precedent multiples continue at their current level, why not sell at 24.0x when the long-term historical forward P/E multiple is no better than 14.0x?

Precedent Transaction Multiples

In Exhibit 2 below, we provide a list of precedent transactions and valuation metrics dating back to late 2004. This Table purposely excludes pure-play commodity deals, e.g., NRG/GEN and NRG/MIR.

As can be seen, the era of low- or no-premium deals have given way to higher premiums and stock transactions have morphed into mainly cash transactions.

Exhibit 2: Precedent Transaction Multiples

Key Dates: Announcement	Completion	Acquiror	Target	TKR	% Cash / % Stock	Equity Value	Firm Value	P/E FY + 1	P/E FY + 2	FV/TTM EBITDA	FV/TTM EBIT	Price/ Book	1 Day Premium
9-Feb-16	*Pending*	Fortis Inc	ITC Holdings	ITC	50% /50%	6,890	11,332	23.9	21.7	15.8	19.7	4.0x	14.0%
9-Feb-16	*Pending*	Algonquin Pow er	Empire District Electric	EDE	100% / 0%	1,493	2,381	23.1	21.7	7.6	17.9	1.9x	21.3%
5-Sep-15	*Pending*	Emera Inc.	TECO Energy	TE	100% / 0%	6,477	10,358	23.8	22.6	11.4	18.3	2.5x	30.8%
3-Dec-14	*Pending*	NextEra Energy	Haw aiian Electric	HE	0% / 100%	2,600	4,300	20.8	N/A	N/A	N/A	N/A	18.8%
20-Oct-14	*Pending*	Macquarie Infrastructure	Cleco	CNL	100% / 0%	3,343	4,685	20.4	20.2	9.6	15.7	2.0x	14.7%
23-Jun-14	29-Jun-15	Wisconsin Energy	Integrys	TEG	26% / 74%	5,758	9,079	20.2	18.7	11.3	21.2	1.7	17.3%
30-Apr-14	*Pending*	Exelon Corp	Pepco Holdings, Inc	POM	100% / 0%	6,829	12,136	22.3	20.8	10.6	17.0	1.6	19.6%
11-Dec-13	15-Aug-14	Fortis Inc	UNS Energy Corp	UNS	100% / 0%	2,515	4,271	20.4	18.2	7.8	15.6	2.2	30.1%
29-May-13	19-Dec-13	MidAmerican Holdings	NV Energy Inc.	NVE	100% / 0%	5,594	10,366	18.3	17.5	7.7	13.1	1.6	20.3%
21-Feb-12	27-Jun-13	Fortis Inc	CH Energy Group	CHG	100% / 0%	968	1,443	20.2	19.4	10.2	14.5	1.9	10.6%
23-Jun-11	27-Jun-12	Gaz Metro LP	Central Vermont Pub. Svc Corp	CV	100% / 0%	477	657	21.6	19.8	13.6	22.1	1.6	-6.3%
28-Apr-11	13-Mar-12	Exelon	Constellation Energy	CEG	0% / 100%	7,512	10,165	11.6	15.1	7.8	13.4	1.0	12.5%
20-Apr-11	28-Nov-11	AES	DPL Inc.	DPL	100% / 0%	3,509	4,640	12.4	12.1	7.5	9.7	2.9	8.7%
10-Jan-11	2-Jul-12	Duke Energy	Progress Energy	PGN	0% / 100%	13,581	25,531	15.2	14.7	8.1	12.4	1.4	3.8%
18-Oct-10	10-Apr-12	Northeast Utilities	NSTAR	NST	0% / 100%	4,067	6,842	15.4	14.9	7.9	12.8	2.2	1.9%
10-Feb-10	25-Feb-11	FirstEnergy	Allegheny Energy	AYE	0% / 100%	4,999	9,216	13.0	11.8	7.7	10.0	1.5	30.6%
7-Dec-10	9-Dec-11	AGL Resources	Nicor	GAS	41% / 59%	2,408	3,138	17.3	18.7	6.8	12.0	2.3	40.9%
20-Oct-08	*Terminated*	Exelon (hostile)	NRG Energy	NRG	0% / 100%	7,544	14,304	13.4	11.6	6.0	7.3	1.1	36.7%
18-Sep-08	*Terminated*	MidAmerican Holdings	Constellation Energy	CEG	100% / 0%	4,725	9,520	4.9	4.4	5.0	7.0	0.7	7.0%
26-Oct-07	6-Feb-09	Macquarie	Puget Energy	PSD	100% / 0%	3,517	6,671	18.5	18.0	9.4	15.1	1.6	25.3%
25-Jun-07	17-Sep-08	Iberdrola SA	Energy East	EAS	100% / 0%	4,517	8,096	18.9	18.5	7.4	11.8	1.4	27.4%
25-Feb-07	10-Oct-07	Consortium (KKR, TPG)	TXU Corp	TXU	100% / 0%	31,039	42,218	12.2	12.6	7.9	9.4	14.9	15.4%
7-Feb-07	14-Jul-08	Great Plains / Black Hills	Aquila	ILA	40% / 60%	2,831	1,682	N/A	N/A	N/A	N/A	N/A	-2.7%
5-Jul-06	31-May-07	Macquarie	Duquesne Light Holdings	DQE	100% / 0%	1,594	2,766	21.7	14.0	10.8	16.4	2.2	21.7%
10-Jul-06	21-Feb-07	WPS Resources	Peoples Energy	PGL	0% / 100%	1,550	2,535	20.1	18.0	N/A	N/A	1.8	2.4%
25-Apr-06	*Terminated*	Babcock & Brow n	NorthWestern Corp	NOR	100% / 0%	1,316	2,031	N/A	N/A	9.1	14.2	1.8	16.1%
27-Feb-06	24-Aug-07	National Grid	KeySpan	KSE	100% / 0%	7,387	11,283	17.9	18.0	8.8	12.7	1.6	1.4%
19-Dec-05	*Terminated*	FPL Group	Constellation Energy	CEG	0% / 100%	11,092	14,835	17.7	16.1	8.9	14.9	2.0	0.6%
9-May-05	3-Apr-06	Duke Energy	Cinergy	CIN	0% / 100%	8,907	13,696	16.1	14.5	11.2	18.9	2.0	13.4%
20-Dec-04	*Terminated*	Exelon	PSEG	PEG	0% / 100%	12,346	25,966	16.3	15.7	9.2	12.6	4.4	8.5%
24-Aug-16	***Pending***	**Southern Co.**	**AGL Resources**	**GAS**	**100% / 0%**	**$7,945**	**$11,981**	**21.6x**	**20.6x**	**8.9x**	**14.3x**	**2.0x**	**37.9%**
26-Oct-15	***Pending***	**Duke Energy**	**Piedmont Natural Gas**	**PNY**	**100% / 0%**	**$4,900**	**$6,700**	**30.5x**	**28.6x**	**14.2x**	**20.1x**	**3.4x**	**42.2%**

Source: Company reports; Bloomberg; FactSet

Notes: Aquila w as a troubled company and the assets w ere divided as part of a sale process; analyst coverage w as limited. For Northw estern, the analysis show n is for its predecessor company that operated under NOR. Consideration show n for Exelon/NRG deal (hostile) changed during the transaction period. Consideration is for initial offer.

NextEra Haw aiian transaction excludes American Savings Bank, w hich is being spun out in conjunction w ith the NEE/HE transaction

Summary tables exclude DUK/PNY and SO/GAS

	P/E FY + 1	P/E FY + 2	FV/TTM EBITDA	FV/TTM EBIT	Price/ Book	1 Day Premium
High	23.9x	22.6x	15.8x	22.1x	14.9x	41%
Median	18.3	17.7	8.5	13.8	1.8	15%
Mean	17.8	16.6	9.1	14.3	2.4	15%
Low	4.9	4.4	5.0	7.0	0.7	-6%

Source: Company reports; Bloomberg, Mizuho Securities USA Inc.

Our analysis above incorporated certain financial information as provided from Bloomberg or FactSet presented on a GAAP basis, and these items, i.e., EBITDA and EBIT, might have one-time items affecting FV/TTM metrics. For equity value calculations, the number of restricted shares incorporated in these calculations required a thorough review of each merger document. Additionally, we utilized Street consensus estimates the day prior to the announcement. Thinly covered stocks could have a high degree of variability in the estimates, thus influencing actual transaction multiples.

Change in Control Provisions

Exhibit 3 lists the 49 companies we actively monitor in the Power & Utility sector, the change in control (CIC) provision for their CEO and the key regulated jurisdictions where each company operates. All of the figures were taken from the 2015 Proxy Statements and reflect, to the best of our abilities, what the payouts for each CEO would be.

Exhibit 3: Change in Control Provisions

Company	Ticker	CEO	Age	# State Jurisdiction	Key State	Change in Control (a)	Regulated Jurisdictions
AES Corp	AES	Andres Ricardo Gluski	57	3	IN	$18,187,341	IN, OH, FERC
Calpine	CPN	Thad Hill	47			10,682,482	FERC
Dynegy	DYN	Robert C. Flexon	56			18,622,558	FERC
NRG Energy	NRG	David W. Crane	56			15,724,338	FERC
Allete	ALE	Alan R. Hodnik	55	1	MN	3,974,482	MN
Alliant	LNT	Patricia Lenard Kampling	55	3	WI, IA	8,545,228	IA, MN, WI
Ameren	AEE	Warner L. Baxter	53	2	IL, MO	21,185,693	IL, MO
American Electric Power	AEP	Nicolas K. Akins	54	13	OH	30,907,037	AR, IN, KY, LA, MI, OH, OK, TX, VA, WV
Avista Corp	AVA	Scott L. Morris	57	4	WA	11,411,473	AK, ID, OR, WA
Black Hills	BKH	David R Emery	52	6	SD	8,082,132	CO, IA, KS, NE, SD, WY
Centerpoint	CNP	Scott M. Prochazka	49	7	TX	10,417,000	AR, LA, MN, OK, TX
Cleco (b)	CNL	Bruce A. Williamson		2	LA	29,702,673	LA
CMS Energy	CMS	John G. Russell	57	1	MI	31,454,209	MI
Consolidated Edison	ED	John J. McAvoy	54	2	NY	18,062,307	NJ, NY
Dominion Resources	D	Thomas F. Farrell II	60	4	VA	25,735,626	NC, OH, VA, WV
DTE Energy	DTE	Gerard M. Anderson	56	1	MI	26,687,279	MI
Duke Energy	DUK	Lynn J. Good	55	6	NC, FL	19,304,870	FL, IN, KY, NC, OH, SC
Edison International	EIX	Ted F. Craver Jr	63	1	CA	11,640,778	CA
El Paso Electric	EE	Tom V. Shockley III	70	3	TX	1,518,774	NM, TX
Empire District Electric	EDE	Bradley P. Beecher	49	2	MO	7,262,979	KS, MO, OK
Entergy	ETR	Leo P. Denault	55	6	LA	18,131,478	AR, LA, MS, TX
Exelon	EXC	Christopher M. Crane	56	3	IL, PA	47,380,000	IL, MD, PA
First Energy (c)	FE	Tony J. Alexander	63	6	OH, PA	28,081,233	MD, NJ, PA, WV, OH, VA
Great Plains	GXP	Terry D. Bassham	54	2	MO	12,771,679	KS, MO
IdaCorp	IDA	Darrel T. Anderson	57	2	ID	4,942,520	ID, OR
ITC Holdings	ITC	Joseph L Welch	66			16,782,432	FERC
Madison Gas & Electric	MGEE	Gary Joseph Wolter	60	1	WI	2,533,523	WI
NextEra Energy, Inc.	NEE	James L. Robo	52	3	FL	29,767,390	FL, TX
Eversource	ES	Tom J. May	67	3	CT, MA	26,949,553	CT, MA, NH
Northwestern	NWE	Bob C. Rowe	59	3	SD	3,768,210	MT, NE, SD
OGE Corp	OGE	Peter B. Delaney	61	2	OK	11,627,015	AR, OK
Otter Tail Power (d)	OTTR	Jim J. McIntyre	65	2	MN, ND	4,993,191	MN, ND
PG&E Corp	PCG	Tony F. Earley Jr.	65	1	CA	26,748,372	CA
Pinnacle West	PNW	Donald E. Brandt	60	1	AZ	35,541,680	AZ
PNM Resources	PNM	Patricia K. Collawn	56	3	NM	12,596,768	NM, TX
Portland General Electric	POR	Jim J. Piro	62	1	OR	4,368,949	OR
PPL Corp	PPL	Bill H. Spence	58	3	PA	49,152,946	KY, PA, VA
Pub Svc Ent Group	PEG	Ralph Izzo	57	1	NJ	19,395,297	NJ
Scana	SCG	Kevin B. Marsh	59	2	SC	14,019,700	NC, SC
Sempra Energy	SRE	Debbie L. Reed	58	2	CA	56,975,379	AL, CA
Southern Company	SO	Tom A. Fanning	58	4	GA	25,378,957	AL, FL, GA, MS
TECO Energy	TE	John Braulio Ramil	59	1	FL	20,837,287	FL, NM
United Illuminating	UIL	James P. Torgerson	62	2	CT, MA	9,093,268	CT, PA, MA
Vectren	VVC	Carl L. Chapman	59	2	IN	20,060,305	IN, OH
Westar Energy	WR	Mark A. Ruelle	53	1	KS	7,491,621	KS
Wisconsin Energy	WEC	Gale E. Klappa	64	2	WI	61,648,719	MI, WI
Xcel Energy	XEL	Benjamin G.S. Fowke III	56	8	MN	39,565,607	CO, MN, NM, ND, WI, TX, SD

Source: SNL; Company reports; Mizuho Securities USA Inc.

Notes:

(a) Change in control is determined via 2015 proxy statement reflecting payment had CIC occurred on 12/31/14. These payments reflect total payment, in some cases including some funds that also would be received by CEO through retirement and other means of termination.

(b) Information is from 2014 proxy. Following tis merger, Cleco is yet to release a proxy statement for 2015.

(c) Tony J. Alexander retired in April this year. He was replaced by Charles E. Jones. Mr. Jones' complete details will be available in the 2016 Proxy.

(d) Jim J. McIntyre retired in April this year. He was replaced by Chuck MacFarlane. Mr. MacFarlane's complete details will be available in the 2016 Proxy.

Source: Company reports; Mizuho Securities USA Inc.

Key Considerations

We believe the key considerations to any potential deal are as follows:

- **The math must work.** We believe relative valuations remain a key consideration, and by most accounts, the natural sellers, *i.e.*, small-to-mid cap players are trading at a premium to the natural buyers, making the challenge difficult.

- **It must be socially doable.** One of the key components in each of the transactions that have been announced in recent years is that there has been a willing seller. And while the math must still work, have a non-hostile regulatory environment is also key. To the best of our knowledge, there has never been a successful hostile electric/electric transaction consummated in the sector.

- **What is a reasonable premium?** Rightly or wrongly, the low cost of financing has driven up multiples. Tax capacity, *e.g.*, PTCs or NOLs, of the acquiring company can help influence premia.

- **What type of transactions actually work?** In any transaction involving some level of regulated operations, most regulators seek to ensure that the transaction is consistent with the public interest, that rates won't be materially altered, and that the long-term business strategy is one where reliable cost-effective service is still provided. Importantly, by statute, regulators are often prohibited from allowing the merger consideration premium to be recovered in rates. From a shareholder perspective, channel mergers, convergence mergers, and large scale mergers have proven to have had a tougher time in meeting their original objectives than roll-up transactions.

- **What types of transactions don't work?** Equity over debt and lower returns on capital could pose additional headwinds.

State by State Merger Approval Statutes

In Exhibit 4 below, we list all 50 states as well as the District of Columbia, the New Orleans City Council, and the Texas Railroad Commission, and whether the respective commission has jurisdiction over the transaction. Additionally, we provide an overview of what we view as the key legal requirement in effecting a transaction.

Exhibit 4: State by State Merger Approval Statutes

Commission	Required Approval	Comments
Alabama (PSC)	Y	Require that changes of control of utility and its plant, property, or facilities be consistent w ith public interest, as determined by the PSC.
Alaska (ARC)	Y	Must determine entity is managerially & financially fit and transaction is in public interest.
Arizona (ACC)	Y	No set standard. In the past have used "net benefit" and "no harm" standards.
Arkansas (PSC)	Y	Several requirements regarding competition, substantial viability, affect on customers / public interest, etc.
California PUC (CPUC)	Y	Broad discretion to determine if the transaction is in the public interest.
Colorado PUC	Y	Must meet "public interest" standard.
Connecticut (PURA)	Y	Must review only w hen transaction results in change of control over Connecticut public service companies.
Delaw are (PSC)	Y	Transaction must be "in accordance w ith the law , is for a proper purpose, and is consistent w ith the public interest."
District of Columbia (PSC)	Y	Must meet "public interest" standard, interpreted as provide "a direct and traceable financial benefit to ratepayers."
Florida (PSC)	N	Not authorized to directly review M&A of regulated utilities.
Georgia (PSC)	Y	No specific authority, but has effectively asserted jurisdiction and required conditions to protect ratepayers.
Haw aii (PUC)	Y	"Reasonable and in the public interest" standard; bill changing standard to "substantial net benefit " and list of criteria passed in House and sent to Senate
Idaho (PUC)	Y	Consistent w ith public interest, no increase in costs for rates, and acquirer has bona fide intent and financial ability to operate in public interest.
Illinois (ICC)	Y	"No net harm" standard.
Indiana (IURC)	N	
Iow a (IUB)	Y	May reject a merger if the evidence indicates the transaction is contrary to public interest.
Kansas (KCC)	Y	Promotion of public interest w ith 11 factors for consideration
Kentucky (PSC)	Y	Entity must have financial technical, and managerial abilities. Merger must be consistent w ith public interest.
Louisiana (PSC)	Y	Must be in public interest, maintain or improve financial condition, provide net benefit to ratepayers, etc.
Maine (PUC)	Y	Must be consistent w ith the interest of the utilities' ratepayers and investors.
Maryland (PSC)	Y	Must cause no harm and provide a positive net benefit to ratepayers.
Massachusetts (DPU)	Y	"Net benefit" standard as of 2011 as w ell as "consistent w ith the public interest."
Michigan (PSC)	Y	Can review , approve, and attach conditions to approval of mergers.
Minnesota (PUC)	Y	Must be "consistent w ith the public interest," not necessarily a public benefit.
Mississippi (PSC)	N	Transaction must be "consistent w ith the public interest."
Missouri (PSC)	Y	Must determine the transaction is "not detrimental to the public interest."
Montana (PSC)	Y	
Nebraska (PSC)	Y	The transaction cannot "adversely affect the utility's ability to serve its ratepayers."
Nevada (PUC)	Y	Must receive approval to purchase > 25% and transaction must be in the public interest / must not harm ratepayers.
New Hampshire (PUC)	Y	Transaction "w ill not have an adverse effect on rates, terms, service, or operation of the public utility w ithin the state" & "is law ful and in the public interest.
New Jersey (BPU)	Y	Must be in public interest and examine: impact on competition / employees / ratepayers and ability to provide safe & reliable service.
New Mexico (PRC)	Y	Tw o sets of criteria depending upon the type of transfer, i.e. all stock, and w hether the existing Certificate of Public Convenience and Necessity w ill be transferred or cancelled and reissued. If no change in CPCN, then "no net harm" standard applies else " net benefit" standard
New Orleans City Council	Y	Public interest, financial viability, safe & reliable service, net benefits to ratepayer in both long and short term, etc.
New York State (PSC)	Y	Must show public interest. 50% of merger savings generally must be allocated to ratepayers.
North Carolina (NCUC)	Y	Merger must be justified by "the public convenience and necessity." e.g. w ill rates and service be adversely affected?
North Dakota (PSC)	Y	Public interest standard
Ohio (PUCO)	Y	Must promote public convenience and result in the provision of adequate service for a reasonable rate.
Oklahoma CC (OCC)	Y	Must be "in the public interest" based upon level of service, financial obligations, competition, etc.
Oregon PUC (PUC)	Y	Must demonstrate transaction w ill "serve the public utility's customers in the public interest."
Pennsylvania (PUC)	Y	"By a preponderance of the eveidence, the transaction w ould affirmatively promote the service, accommodation, convenience, or safety of the public in some substantial w ay."
Rhode Island (PUC)	Y	DPUC has authority and must find transaction is "consistent w ith public interest and …w ill not diminish the facilities of the companies used for furnishing service to the public.
South Carolina (PSC)	Y	No standards, but generally ensure retail customers are protected from any adverse effects.
South Dakota (PUC)	Y	State law requires certain ring-fencing requirements for the state's electric and gas utilities; PUC can w aive them if "w ould not pose an undue risk" to the utility and w ould be "in the public interest".
Tennessee (TRA)	Y	Examines "all relevant factors" and approval on finding merger "furthers the public interest".
Texas (PUC)	Y	Must result in public interest and not: adversely affect health and safety of customers or employees, result in the transfer of jobs out of state, or result in decline in service.
Texas Railroad Commission	N	Commission not required to review mergers, but utility is required to file report w ithin 60 days and the Commission "shall take the effect of the transaction into consideration in ratemaking proceedings and disallow the effect of the transaction if the transaction w ill unreasonably affect rates or service"
Utah (PSC)	Y	Proposed transaction must be in the public interest.
Vermont (PSB)	Y	Transaction must promote the general good of the state and that the transaction w ill not impair competition.
Virginia (SCC)	Y	Merging entities must demonstrate transaction w ill neither impair nor jeapordize the provision of adequate service to the public at just and reasonable rates.
Washington (UTC)	Y	"Net benefit" standard
West Virginia PSC	Y	Mergers may be approved "upon a proper show ing that the terms and conditions are reasonable and that neither party thereto is given an undue advantage over the other, and do not adversely affect the public in this state."
Wisconsin (PSC)	Y	Utility ratepayers must not be made w orse off in any w ay as a result of a merger.
Wyoming (PSC)	Y	State law prohibits the PSC from approving merger if " the reorganization w ill adversely affect the utility's ability to serve the public".

Source: SNL Financial

Source: SNL; Mizuho Securities USA Inc.

Exhibit 5: Comparative Valuation Table (*based on Consensus estimates*)

Company Name	TKR	Price 3/11/2016	Annualized Dividend	Yield	Price/ Earnings 2014A	2015A	2016E	2017E	2018E	EV/EBITDA 2014A	2015A	2016E	2017E	Price/Book 2015A
Large-Cap Regulated														
Ameren	AEE	$48.22	$1.70	3.53%	20.4x	18.6x	19.1x	17.2x	16.0x	9.5x	8.7x	8.7x	8.0x	1.7x
American Electric Power	AEP	64.23	$2.24	3.49%	18.5	17.3	17.4	16.5	15.4	9.7	9.2	9.1	8.8	1.8
Consolidated Edison	ED	73.27	$2.68	3.66%	19.0	18.3	18.3	17.7	17.0	10.2	9.7	9.2	8.8	1.6
Duke Energy	DUK	77.76	$3.30	4.24%	17.0	17.0	16.8	16.2	15.5	10.9	10.6	10.2	9.7	1.3
Edison International	EIX	70.40	$1.92	2.73%	16.3	18.6	18.1	17.1	16.3	8.8	8.8	7.9	7.4	2.0
Eversource Energy	ES	56.55	$1.78	3.15%	21.3	20.0	18.9	17.8	16.7	11.9	11.4	10.9	10.4	1.7
PG&E Corp	PCG	57.32	$1.82	3.18%	16.5	18.8	15.4	15.6	14.8	9.0	9.2	7.5	7.0	1.7
PPL Corp	PPL	36.56	$1.52	4.16%	15.1	16.5	15.6	15.1	14.5	10.0	11.0	10.8	10.2	2.5
Southern Company	SO	49.79	$2.17	4.36%	17.8	17.4	17.5	16.8	16.2	11.1	10.9	10.6	9.9	2.2
WEC Energy Group	WEC	58.15	$1.83	3.15%	22.2	21.4	19.9	18.7	17.6	18.8	15.9	11.4	10.9	2.1
Xcel Energy	XEL	40.38	$1.36	3.37%	20.3	19.2	18.3	17.4	16.5	11.5	10.6	10.0	9.6	1.9
Mean				**3.55%**	**18.6x**	**18.5x**	**17.8x**	**16.9x**	**16.0x**	**11.2x**	**10.7x**	**9.8x**	**9.3x**	**1.9x**
Median				**3.43%**	**18.5x**	**18.6x**	**18.1x**	**17.1x**	**16.2x**	**10.6x**	**10.6x**	**10.1x**	**9.6x**	**1.8x**
Relative to the S&P					*104%*	*101%*	*104%*							
Small and Mid-Cap Regulated														
Alliant	LNT	$70.85	$2.35	3.32%	20.5x	19.8x	18.7x	17.5x	16.7x	12.9x	12.0x	11.4x	10.5x	2.2x
Avista	AVA	39.32	$1.37	3.48%	20.5	20.1	19.2	18.2	N/A	10.7	10.3	9.6	9.1	1.6
CMS Energy	CMS	40.99	$1.24	3.03%	23.1	21.7	20.3	18.9	17.5	11.3	10.6	9.9	9.3	2.9
El Paso Electric	EE	42.92	$1.18	2.75%	18.9	21.4	17.0	16.4	N/A	11.3	12.2	11.0	10.2	1.7
Great Plains	GXP	30.96	$1.05	3.39%	19.6	22.2	17.8	16.9	16.0	10.4	10.4	9.3	8.9	1.3
IdaCorp	IDA	73.99	$2.04	2.76%	19.7	19.2	19.0	18.4	N/A	12.7	12.5	N/A	N/A	1.8
ITC Holdings	ITC	42.91	$0.75	1.75%	22.9	20.7	20.5	19.2	17.6	14.2	13.5	12.7	11.5	3.8
Northwestern Energy	NWE	60.19	$2.00	3.32%	22.4	19.3	18.1	17.5	N/A	15.9	12.0	11.4	N/A	1.9
Pinnacle West	PNW	71.18	$2.50	3.51%	19.3	18.7	17.8	17.0	16.2	9.4	9.0	8.7	8.2	1.7
PNM Resources	PNM	33.21	$0.88	2.65%	22.5	20.9	20.4	17.5	16.1	10.4	10.0	9.0	8.0	1.6
Portland General	POR	39.24	$1.20	3.06%	18.1	18.8	17.3	16.2	16.0	9.3	9.2	8.5	8.0	1.5
Scana	SCG	67.17	$2.30	3.42%	17.7	17.6	16.9	16.1	15.3	11.4	10.8	10.8	10.7	1.8
TECO Energy	TE	27.43	$0.92	3.35%	26.6	25.0	23.2	21.4	20.1	12.5	11.2	10.6	10.0	2.5
Westar Energy	WR	46.43	$1.52	3.27%	19.3	21.1	19.0	18.3	17.7	10.8	10.8	9.6	9.2	1.8
Mean (excl. ITC and TE, merger-related)				**3.16%**	**20.1x**	**20.1x**	**18.5x**	**17.4x**	**16.9x**	**11.6x**	**11.0x**	**10.1x**	**9.4x**	**2.0x**
Median (excl. ITC and TE, merger-related)				**3.30%**	**19.7x**	**19.9x**	**18.4x**	**17.5x**	**16.2x**	**11.2x**	**10.8x**	**10.0x**	**9.6x**	**1.8x**
Relative to the S&P					*112%*	*110%*	*109%*							
Integrated														
American Electric Power	AEP	$64.23	$2.24	3.49%	18.5x	17.3x	17.4x	16.5x	15.4x	9.7x	9.2x	9.1x	8.8x	1.8x
Black Hills	BKH	58.31	$1.68	2.88%	20.2	19.8	19.4	16.6	15.6	10.3	10.3	8.8	N/A	2.0
Centerpoint	CNP	20.28	$1.03	5.08%	17.4	19.1	17.7	16.9	15.8	9.1	8.6	8.3	7.8	2.5
Dominion Resources	D	72.22	$2.80	3.88%	21.0	19.8	18.9	18.3	16.5	14.0	13.2	12.3	11.7	3.4
DTE Energy	DTE	88.25	$2.92	3.31%	19.7	18.4	17.8	16.8	15.7	10.0	9.9	9.8	9.4	1.8
Entergy	ETR	75.92	$3.40	4.48%	12.8	12.9	14.7	14.6	14.5	7.2	7.4	7.5	7.2	1.5
Exelon Corp	EXC	34.73	$1.24	3.57%	14.5	13.8	13.8	13.1	12.2	8.6	7.8	7.4	6.9	1.2
FirstEnergy	FE	35.70	$1.44	4.03%	14.2	13.2	12.5	13.2	13.2	9.3	8.4	8.2	8.2	1.2
NextEra Energy	NEE	115.82	$3.48	3.00%	21.9	20.6	18.8	17.7	16.7	12.5	11.1	10.6	9.7	2.4
OGE Corp	OGE	27.14	$1.10	4.05%	13.7	15.2	15.5	14.3	13.4	8.3	9.1	8.5	N/A	1.6
Pub Svc Ent Group	PEG	44.33	$1.64	3.70%	16.2	15.3	15.2	15.5	14.8	8.5	7.8	7.9	7.7	1.7
Sempra Energy	SRE	99.46	$3.02	3.04%	21.8	19.7	19.4	17.9	15.4	12.0	11.5	10.7	9.5	2.1
Mean				**3.71%**	**17.7x**	**17.1x**	**16.8x**	**15.9x**	**14.9x**	**9.9x**	**9.5x**	**9.1x**	**8.7x**	**1.9x**
Median				**3.63%**	**18.0x**	**17.9x**	**17.5x**	**16.5x**	**15.4x**	**9.5x**	**9.2x**	**8.6x**	**8.5x**	**1.8x**
Relative to the S&P					*99%*	*94%*	*99%*							
S&P 500	**SPX**	2,022.19	$41.53	**2.05%**	**17.9x**	**18.3x**	**17.0x**							
Philadelphia UTY	**UTY**	608.97	$22.45	**3.69%**	**18.2x**	**18.0x**	**17.5x**	**16.7x**	**15.7x**					

Source: Bloomberg, Mizuho Securities USA Inc.

Price Target Calculation and Key Risks

American Electric Power Company, Inc.

We value AEP using several methodologies, including P/E, DDM and price to book value. We avoid using Sum of the Parts given the high likelihood (>70%) that the company sells its merchant generation fleet. DCF valuations are difficult given the capital intensive nature of the Power & Utility sector, especially regulated companies, and the lack of free cash flow generation, net of dividends. For triangulation purposes, we look at dividend discount models to see where the imputed price lies based on underlying dividend growth assumptions. We look principally towards a relative P/E approach. Our $65 per share 12-month target assumes a 15.5x P/E multiple rolled forward on our 2018 EPS estimate of $4.20 per share.

General economic conditions, changes in state and/or Federal regulation, environmental compliance, execution risk with new construction, weather, ongoing business operational risk, broader macroeconomic conditions, and interest rate movements are among the key risks to our rating and expected stock performance.

Consolidated Edison, Inc.

We value Consolidated Edison primarily utilizing relative P/E multiples and employ DDM valuation methodologies for triangulation purposes. We utilize a 8.0% premium to the underlying large cap P/E multiple on our 2017E. Our DDM methodology includes single stage and two stage approaches with the single stage under a baseline DPS growth rate. The two-stage uses various three year DPS growth expectations followed by a static long-term growth DPS growth rate. DCF methodologies are difficult given the limited free cash flow generation characteristics found in regulated companies. All underlying figures use constant betas, equity risk premiums, and risk-free rates.

General economic conditions, changes in state and/or Federal regulation, environmental compliance, execution risk with new plant builds, weather, ongoing business operational risk, broader macroeconomic conditions, and interest rate movements are among the key risks to our rating and expected stock performance.

Duke Energy

We value DUK on a P/E methodology based on its core EPS of $4.74 (ex. LatAm operations). We also triangulate our valuation using a sum of the parts methodology, P/Book, Single Stage DDM, and Yield support methodologies to arrive at our $72 target. The relative P/E basis method is consistent with the valuation methodologies of its large-cap (>$10.0 billion) peers. Premium valuations are ascribed for regulatory and better transparency when predicting earnings, while discounted valuations include heightened regulatory, construction, and operational/execution risks. Typically, businesses outside the core, in this case DUK's International unit, will tend to weigh more on the shares when trouble arises. This is known as the "dog wagging the tail' issue and DUK's International businesses consume a disproportionate amount of investor interest. We look at Yield support and Price to Book as indicators of future stock potential. DDM methodologies are highly dependent on underlying risk premiums, and DPS growth projections, which can swing valuations considerably and as shown below.

The key risks for DUK include regulatory risk in six states, from rate regulation to operation of coal and nuclear units. Environmental regulation remains omnipresent and DUK's February 2014 coal ash spill at the Dan River facility has heightened regulatory risk around the company. DUK is active in building a renewables business and has done a good job doing so – nearly 2,000MW of owned and/or equity interest in both wind and solar. building regulatory General economic conditions, changes in state and/or Federal regulation, environmental compliance, execution risk with new plant builds, weather, ongoing business operational risk, broader macroeconomic conditions, and interest rate movements are among the key risks to our rating and expected stock performance.

Edison International

Our 12-month $69 per share price target for EIX is primarily based on a relative P/E basis and we adjust our multiples accordingly based on the inherent growth and risk profile. We look at single-stage and two-stage dividend discount models for valuation triangulation purposes. A two-stage model may be a tough argument given the call by TURN. A sum of the parts analysis is problematic given the integrated model and lack of desire to spin out the FERC-regulated transmission business.

General economic conditions, changes in state and/or Federal regulation, environmental compliance, execution risk with new plant builds, weather, ongoing business operational risk, broader macroeconomic conditions, and interest rate movements are among the key risks to our rating and expected stock performance.

Entergy Corp

We value ETR using four valuation methodologies but rely primarily on P/E, and dividend discount models. We use sum of the parts, but the complicated tax structures and allocation among units makes its difficult to use with any sense of comfort. For triangulation purposes, we also look at price to book value. Our target is the arithmetic average of these methodologies.

General economic conditions, changes in state and/or Federal regulation, environmental compliance, execution risk with new plant builds, weather, ongoing business operational risk, broader macroeconomic conditions, and interest rate movements are among the key risks to our rating and expected stock performance.

Eversource Energy

We value Eversource on a P/E multiple based on a t+2 forward year analysis, consistent with valuation methodologies for regulated names. For triangulation purposes, we turn to dividend discount models (single- and two-stage) as well as price/book methodologies. Our $54 per share, 12 month price target represents a 7.5% premium to the regulated group average P/E of 14.3x on our 2018E. ES is, in our view, one of the three premier companies in the space. Given the simplistic nature of its story, its proven track record, financial strength and integrity, coupled with its growth and dividend aspirations, ES has earned the right to trade at a premium. But, there isn't enough upside from current levels to warrant the Buy recommendation, hence our Neutral rating on the shares.

General economic conditions, changes in state and/or Federal regulation, environmental compliance, execution risk with new transmission and pipeline builds, ongoing business operational risk, broader macroeconomic conditions, and interest rate movements are among the key risks to our rating and expected stock performance.

NextEra Energy, Inc.

We value NEE utilizing five valuation methodologies but rely primarily on Sum of the Parts given its various businesses, all of which have scale. Our $125 target price is the arithmetic average of the P/E, Sum of the Parts, and DDM valuation methodologies. We utilize group average multiples as the baseline and adjust up or down based on the specific business unit. This is key in SOP analysis. For example, the regulated business operates in one of the better jurisdictions, thus it receives a premium valuation, the highly contracted cash flows also receive a modest premium. We also assign small valuations on a $/KW basis for the development pipeline. The Sum of the Parts methodology also captures pipeline development and the benefits of the company's considerable tax attributes. All valuation metrics are on 2017.

The key risks for NEE include potential changes at the state and/or Federal level related to environmental policy; potential changes in state regulation or assigning more punitive allowed returns than previously authorized; tax policy, especially at the Federal level as it relates to renewables; operational risk; M&A; and, weather, especially since weather influences renewable generation. Broader macro concerns regarding economic outlook, changes in underlying Treasury securities or expectations of the same are other key concerns and can influence the investment appeal of utilities in general, and NEE, in particular.

Our NEP price target is $47 per unit and reflects a 3% targeted yield, which is the 2015 current yield applied to our year-end 2016 DPU level.

Key risks to the NEP story include: significant investor concentration and limited daily trading volumes; the tax status for renewables could change under Congressional directive; capital markets need to remain friendly in order to fund transactions at a low cost of capital. NEPs Genesis project produces 40-45% of the EBITDA from the initial portfolio.

PG&E Corporation

We examine PCG on a relative P/E basis and adjust our multiples accordingly based on the inherent growth and risk profile. A sum of the parts analysis is tough given the integrated operational profile of its core utility and gas transmission. We look at single-stage and two-stage dividend discount models for triangulation purposes only, and see where value could go in the event the Board moves to reinstate dividend growth We've looked at P/Book over the prior five years and derived a reasonable range of multiples. A DCF is problematic given the negative free cash flow throughout the forecast period. Combined, our 12-month per share price target for PCG is $56, equating to a 14.8x multiple on our 2017E, representing a modest, 7% premium to the large cap regulated peer universe.

General economic conditions, changes in state and/or Federal regulation, environmental compliance, execution risk with new plant builds, weather, ongoing business operational risk, broader macroeconomic conditions, and interest rate movements are among the key risks to our rating and expected stock performance.

Pinnacle West Capital Corporation

Our 12-month, $70 price target is based on four valuation methodologies – P/E, DDM, DCF and Price to Book – but rely primarily on P/E given that its EPS stream is derived entirely from regulated activities. Our Neutral recommendation is premised on two factors: outstanding considerations with rate design and underlying customer growth, while still up, is not materializing in the manner PNW anticipates. The P/E methodology utilizes group average multiples as a Base Case and adjusts the multiples +/- 7% from the base. The DDM utilizes current 10 Year Treasury as the risk free rate and a 10% equity risk premium and utilizes either PNWs near-term dividend growth objectives (5%, in the single-stage approach) or a combination of N/T growth and long-term industry average DPS outlook for the two-stage approach. The DCF valuations are highly sensitive to underlying cost of capital expectations and presumed growth rates. The Price to Book methodology uses historical P/Book as a reasonable range of expectations.

General economic conditions, changes in state and/or Federal regulation, environmental compliance, execution risk with ongoing business operations, construction risk (both transmission build and generation plant upgrades), nuclear plant operations, weather, ongoing business operational risk, broader macroeconomic conditions, and interest rate movements are among the key risks to our rating and expected stock performance outlook.

SCANA Corporation

Our 12-month $71 per share price target is based on the arithmetic average of P/E and DDM valuation. We utilize a 15.3x P/E multiple on our 2018E and use current 10 year Treasury notes when calculating DDM. Key risks include execution risk with the nuclear project; the cost of building the two new nuclear units is roughly equivalent to SCGs market cap today and once complete, will represent nearly one-half the earnings power and two-thirds of the cash flow. General risks include economic conditions, a changing regulatory environment, and changes in interest rates.

TECO Energy, Inc.

Our price target is $27.50 per share, and simply reflects the announced purchase price of $27.55 per share rounded down to the nearest quarter dollar. Key risks include completing the proposed transaction, regulatory changes at both the Federal and State level, execution risk associated with new plant build, general economic conditions. Additionally, utilities tend to have a high correlation with interest rate moves and any material upward move in underlying Treasuries could impact valuations for TE and the broader utility group.

The Southern Company

Our $50 price target is calculated using the group average multiple on our 2018E. We utilize group multiples for the various components when we triangulate valuation using sum of the parts, DDM, DCF analysis. Execution risk with the development of two large generating facilities is a key risk, as are potential changes in environmental compliance and regulation both the Federal and state levels. The moves in underlying Treasury securities is statistically significant with movement in utility share prices.

WEC Energy Group

We value WEC using the arithmetic average of P/E, Yield Support, Dividend Discount (both single- and two-stage) and price to book but look primarily at relative P/E and DDM as the basis for our valuation methodologies. WEC shares are currently trading at 17.5x our 2018 EPS estimates and are priced to yield 3.47% (current quarterly dividends, annualized) compared with group averages of 15.5x and 3.6%, respectively. The "max" P/E WEC has traded to its peers is a 123% relative, implying that at its current 113% relative, it still has room to run. Our target of $63 equates to a 123% relative or a 19.4x P/E on our 2018E. The absolute P/E is in line with performance within the last year.

General economic conditions, changes in state and/or Federal regulation, environmental compliance, execution risk with merger integration, weather, ongoing business operational risk, broader macroeconomic conditions, and interest rate movements are among the key risks to our rating and expected stock performance.

Westar Energy, Inc.

We value WR on a takeout basis using precedent transaction multiples to arrive at our price target. Precedent transactions utilizing a P/E valuation methodology produces valuation in a range of $55-56 per share.

On a stand alone basis, we would value WR primarily on a P/E basis giving it a group average valuation on a two-year forward basis. We also utilize DDM and DCF valuation methodologies to help triangulate valuation.

The key risks for Westar, besides not consummating a transaction, include potential changes at the state and/or Federal level related to environmental policy; potential changes in state regulation or assigning more punitive allowed returns than previously authorized; changes in tax policy, especially at the Federal level as it relates to renewables and/or capital investment; operational risk; and, weather, especially since weather influences renewable generation. Broader macro concerns regarding the economic outlook, changes in underlying Treasury security prices or expectations of the same are some of the key concerns that can influence the investment appeal of the utility sector in general, and WR in particular.

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None

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Buy:	Stocks for which the anticipated share price appreciation exceeds 10%.
Neutral:	Stocks for which the anticipated share price appreciation is within 10% of the share price.
Underperform:	Stocks for which the anticipated share price falls by 10% or more.
RS:	Rating Suspended - rating and price objective temporarily suspended.
NR:	No Rating - not covered, and therefore not assigned a rating.

Rating Distribution

(As of 3/11)	**% of coverage**	**IB service past 12 mo**
Buy (Buy)	51.67%	37.63%
Hold (Neutral)	47.22%	24.71%
Sell (Underperform)	1.11%	0.00%

For disclosure purposes only (NYSE and FINRA ratings distribution requirements), our Buy, Neutral and Underperform ratings are displayed as Buy, Hold and Sell, respectively.

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