Herbivores & Carnivores - M&A v2.0

Every Company Should be a Seller

Summary

We understand the urge to merge, but are confounded by embedded valuation metrics. While we expect consolidation to continue, the clear winners are likely to be those that take advantage of the prevailing theme and sell (for cash, please!) We're not suggesting that buyers can't benefit, but our experience suggests a modicum of care is required. Creating and retaining real tangible value through consolidation is extremely difficult in the regulated utility space; it may be even more difficult at current takeout multiples. Investors should view buyers with caution; own the sellers.

Key Points

Consolidation likely to continue. Low interest rates and a challenging growth environment have been catalysts for consolidation. Financial players have been forced to look beyond their historic comfort zone for long-term, predictable and dependable yield (utility cash flow meets that need). Utilities nervous about tepid demand and changing regulatory structures gain easier access to cheaper capital that's used to finance consolidation (thus delaying the impact of said change). Given that we don't expect either the interest rate environment or motivating factors for either financial or utility participants to change, we believe consolidation will continue, though the pace may slow.

Valuations expected to remain near highs. Competitive auction formats, particularly with foreign financial entities holding unique structural advantages, have driven take-out valuations materially higher. Utilities have been able to stretch to these valuations with the help of rating agencies who have focused primarily on loosely applied earnings accretion metrics versus real tangible value creation. To date, we have seen no lack of competition for deals and no push back from rating agencies, consequently we see no reason for valuations to drop materially.

Caution is warranted. This is not our first rodeo. We recognize that the creation of tangible value through consolidation is not easy. We also know that failure to create value can result in stagnant performance, value destruction and ultimately perhaps a sale at lower valuations. We have seen too many examples of this over the years, stretching from GPU through Conectiv and so on. Our bottom line is that while it's easy for investors to hold those company's that might be coaxed off the fence by high multiples to sell themselves, they should be very cautious holding those companies perceived to be buyers.

Company	Symbol	Price (6/20)	Rating Prior	Rating Curr	PT
American Electric Power Company, Inc.	AEP	$66.79	–	Buy	$67.00
Avista Corporation	AVA	$42.38	–	Neutral	$41.00
Consolidated Edison, Inc.	ED	$77.16	–	Neutral	$72.00
Duke Energy	DUK	$82.00	–	Neutral	$75.00
Edison International	EIX	$73.93	–	Neutral	$75.00
Entergy Corp	ETR	$78.11	–	Neutral	$67.50
Eversource Energy	ES	$56.82	–	Neutral	$59.00
NextEra Energy, Inc.	NEE	$124.24	–	Buy	$125.00
NorthWestern Corporation	NWE	$61.07	–	Neutral	$65.00
PG&E Corporation	PCG	$62.57	–	Buy	$64.00
Pinnacle West Capital Corporation	PNW	$77.48	–	Neutral	$70.00
SCANA Corporation	SCG	$71.36	–	Buy	$84.00
TECO Energy, Inc.	TE	$27.68	–	Neutral	$27.50
The Southern Company	SO	$50.94	–	Neutral	$50.00
WEC Energy Group	WEC	$62.94	–	Buy	$63.00
Westar Energy, Inc.	WR	$55.80	–	Neutral	$60.00

Source: Bloomberg and Mizuho Securities USA

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A Redux of Herbivores & Carnivores – M&A v2.0

Summary

- Transaction valuations are at historical highs (on an absolute basis);
- Activity appears to be robust, suggesting deal flow will continue and valuations will stay elevated;
- While we believe Herbivores are likely to be acquired by Carnivores, this report does not examine each company's respective M&A strategies, or the likelihood of mid-to-large cap MOE type mergers; and,
- We believe investors should focus on the creation of real value, a topic that will be examined and quantified more closely in subsequent reports.

Why Every Company Should be a Seller

Based on valuations being paid, the clear winners in this consolidation trend have been those companies that have sold themselves. We believe, particularly in situations where there is competitive bidding by multiple parties, the value realized for shareholders has exceeded anything the standalone entities could achieve over a reasonable investment timeframe. We also highlight the nature of financing for acquisitions, being largely cash versus paper, thus representing real value realization.

We are not suggesting that buyers in this consolidation trend can't be winners, but our experience suggests that investors should be cautious. The creation and retention of real tangible value through consolidation is extremely difficult in the regulated utility space, it may be even more difficult at current takeout multiples. We urge management to be more transparent regarding tangible value creation and investors to be more diligent in their analysis.

While we have no special insight, we imagine that recent transactions have generated a lot of Board level conversations at companies as they try and figure out where they sit on the buyer/seller spectrum. Our advice to Boards: if current valuations persist, raise your hand, start a competitive process, and take the cash!!

Consolidation Will Likely Continue

There has been considerable consolidation in the domestic electric and gas utility sectors. We believe the most significant underlying drivers to this trend have been low rates, the ready availability of capital and structural changes in the underlying utility business model.

Low interest rates have forced financial entities to move out of their traditional comfort zone as they need to satisfy a need for long-term, predictable and dependable yield. This need can be met with the cash flows generated by regulated utilities which also present an added opportunity for the deployment of incremental capital with predictable, regulated, lower-risk returns. Foreign entities with abundant liquidity, as well as cost of capital, financial structuring and currency advantages have been particularly active in the field with Canadian based firms being some of the most prominent (*e.g.*, Fortis, Emera).

In recent memory, financial entities have purchased Puget Energy, PacifiCorp, UNS Energy, DQE Energy, Central Vermont Public Service, Bangor Hydro-Electric, Central Hudson Gas & Electric, CLECO Energy and NV Energy. Approval proceedings are currently underway for TECO Energy and ITC Holdings.

Domestic utilities have had little choice but to participate in the consolidation trend, with a 'buy or be bought' or 'growth at any price' mindset being adopted by many. Changes in the way the industry is being regulated, the decline in demand growth and declining electricity pricing that results from energy efficiency, renewables and low commodity prices have all gone further and for longer than most sector participants anticipated.

Utility deals are plentiful, including the recently closed acquisition of Potomac Holdings and Integrys Energy Group, the pending deals for AGL Resources, Questar Corp, Piedmont Natural Gas Co., Hawaiian Electric and Empire District Electric. Longer dated deals are too numerous to mention, but include the likes of Progress Energy, Constellation Energy, Northeast Utilities, and Central & South West.

Unfortunately for those utilities that feel the need and urgency to consolidate, takeout multiples and valuations are being set by those financial entities that have unique and specific investment goals, along with structural and financial advantages. There is little doubt that those utilities successful in making acquisitions in this environment are stretching to make the math work.

At this point, we don't envision any of the variables that got us to this point in the M&A cycle changing; we therefore believe that consolidation will continue.

Exhibit 1: Precedent Transaction Multiples

Key Dates								P/E		FV/TTM			
Announcement	Completion	Acquiror	Target	TKR	% Cash / % Stock	Equity Value	Firm Value	FY + 1	FY + 2	EBITDA	EBIT	Price/ Book	1 Day Premium
31-May-16	*Pending*	Great Plains Energy	Westar Energy	WR	15% / 85%	8,538	12,154	23.9	22.9	12.4	18.6	2.3x	13.4%
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 Power	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	Hawaiian Electric	HE	0% / 100%	2,600	4,300	20.8	N/A	N/A	N/A	N/A	18.8%
20-Oct-14	13-Apr-16	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	23-Mar-16	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 & Brown	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 was a troubled company and the assets were divided as part of a sale process; analyst coverage was limited. For Northwestern, the analysis shown is for its predecessor company that operated under NOR.

Consideration shown for Exelon/NRG deal (hostile) changed during the transaction period. Consideration is for initial offer.

NextEra Hawaiian transaction excludes American Savings Bank, which is being spun out in conjunction with the NEE/HE transaction

Summary tables exclude DUK/PNY and SO/GAS

	P/E FY + 1	P/E FY + 2	EBITDA	EBIT	Price/ Book	1 Day Premium
High	23.9x	22.9x	15.8x	22.1x	14.9x	41%
Median	18.4	18.0	8.8	13.8	1.8	14%
Mean	18.0	16.9	9.2	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.

Which Companies are Buyers, and which are Sellers?

The most active category of sellers in the recent consolidation phase has been those companies with a market capitalization of less than $10 billion. In general terms, utilities of this size have a less complicated business mix and regulatory profile. In other words, their business is predominantly regulated and they operate in fewer jurisdictions. This combination makes for an easier purchase, approval and integration process. Utilities of this size also offer potential buyers something that those buyers don't have themselves, elements such as balance sheet strength, earnings growth (through synergy realization or core demand growth), capital deployment opportunities, and/or free cash flow generation.

This report does not attempt to examine the potential for mergers between those companies with a market capitalization over $10 billion (no evidence of these mergers in the market, at least not yet). However, we would not be surprised to see those companies that balk at current takeout valuations look to achieve the same benefits, fill the same needs, with 'merger of equal' type deals at much lower premiums.

We would note that regardless of market capitalization, it is management (in conjunction with the Board), that determine where a company sits on the buyer/seller spectrum. We would also note that to our knowledge, there is not a company in the industry that has considered itself a seller that has not ultimately been sold.

Exhibit 2: Herbivores vs. Carnivores Summary Assessment based on M&A Considerations

Key Characteristics	Herbivores	Carnivores
Size	• Market Cap: Approximately $10b or less	• Market Cap: Approximately $10b or higher
Strengths	• Stand alone growth • Stand alone growth that may requires equity funding • Stable balance sheets, typically • Cash speaks loudly • Single state utilities	• Stable balance sheets, generally • Borrowing capacity • Many deals don't face materiality thresholds • Social issues of target no longer driving force
Weaknesses	• Multiple regulatory jurisdictions • Challenging regulatory jurisdictions, *e.g.,* OR, WA • Lengthy regulatory approval processes with incremental regulatory "give backs" • Valuations typically 0.5x P/E turns > "carnivores"	• Highly competitive processes • Economics increasingly challenging • Implied WACCs and exit multiple out of sync • Valuations typically 0.5x P/E turns < "herbivores"
Examples	***Electric Companies*** Avista Corp; Allete; Alliant; CMS Energy; El Paso Electric; IdaCorp; NiSource; NorthWestern Energy; OGE Energy; PNM Resources; Pinnacle West; Scana Corp; Vectren ***Natural Gas Local Distribution Companies*** Atmos Energy; Avangrid; New Jersey Resources; Southwestern Energy; South Jersey Industries; WGL Holdings	***Electric Companies*** Ameren, American Electric Power; ConEd; DTE Energy; Duke Energy; Edison International; Entergy; Eversource Energy; Exelon; FirstEnergy; NextEra Energy; PG&E Corp; PPL Corp; Pub. Svc. Enterprise Group; Sempra Energy; Southern Company; WEC Energy; Xcel Energy

Source: Mizuho Securities USA Inc.

Valuations Will Likely Remain High

Given the shrinking pool of acquisition targets, the likelihood that those interested in selling will choose the competitive auction format, the continued interest of financial entities and the persistence and low interest rates and accessible capital, we believe valuations and activity in the space will stay elevated.

We should take a moment to say that we are continually surprised and sometimes confounded by the multiples being paid in this round of industry consolidation. It's more than earnings accretion/dilution metrics (which have been slipping further out on the calendar) or the price-to-book multiples (over 2x's book-value for an asset than can earn on its book-value?), but it's the implied WACC's (too low, in our view) and implied exit multiples (too high, in our view) none of which make optical sense to us and none of which the companies themselves are willing to discuss.

Caution is Warranted

We suspect that in the future, when we look back on this period of consolidation in the regulated utility sector, we will see that capital markets (and by default, rating agencies) may have been too flexible and lenient in allowing companies in the sector justify acquisitions based on earnings accretion/dilution measures versus the ability of the participating companies to create real value in excess of the premiums paid. In other words, we believe the transaction justification should be premised on the acquirers ability to bring operating and regulatory expertize to bear such that the acquired company's operating metrics and financial performance improve in a meaningful and measurable way. This performance improvement should be measured over a longer period of time (reflecting the nature of the assets) and should ignore the benefits derived from financial engineering. In our opinion, taking advantage of an anomalous interest rate environment to substitute debt for equity, thus creating the illusion of value versus any real tangible improvement shouldn't count. Also, given the regulated nature of our sector, this measurement should be of the value that drops down to the bottom line, that is the benefit derived by shareholders after ratepayers/customers have received their share (fair or not) of the financial benefits.

We believe it is the responsibility of company managements to quantify and verify the creation of tangible value through consolidation. As takeout values have appreciated, managements have shifted their acquisition rational to be primarily strategic (read: defensive) with financial and value creation metrics being increasingly difficult to identify (if they exist at all). The regulated nature of these businesses, where identified financial benefits have to be shared with ratepayers, encourage and enable management to adopt vague financial guidance and achievement metrics. Historically, it has been in investors' best interest to trust that management will realize the identified benefits; however, given the valuation multiples now being paid, we believe that both managements and investors have a duty to exercise greater scrutiny and in many cases, perhaps more skepticism around the potential tangible value creation.

One of the elements of recent mergers that cause us particular concern is the practice of financing the transactions with relatively short term paper (10 year paper, on 50 year assets). Those investors who agree with our prior comment around the current anomalous interest rate environment will recognize the weakness and potential problems created by this.

Our final point here is that while we're the first to admit that we've been doing this too long, longevity does have its benefits. We remember those deals that ultimately failed to create real tangible shareholder value, resulting in stagnant performance, value destruction and ultimately the sale of affected companies. To make this point, we highlight the likes of Conectiv, Allegheny Energy, DPL Inc., GPU and Columbia Energy, all of which participated in earlier consolidation as buyers, yet none of which are standalone companies today.

Appendix

In the Exhibits that follow, we have provided the following:

Exhibit 3: State Jurisdictions. We list the regulatory approval threshold placed on a transaction by each respective state jurisdiction. Simply put, it the deal in the public interest or is there no net harm to the customer.

Exhibit 4: Herbivore Price Performance. Lists the 23 electric utilities with market caps of approximately $10 billion or less and the price performance across a series of metrics for 2016 plus 52 week high/low analysis.

Exhibit 5: **Valuation Comparables.** Current market valuations based on Street consensus multiples.

Exhibit 3: State Jurisdictions – Merger Considerations

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 Financial

Exhibit 4: Herbivores Price Performance

						Stock Price Performance						in %		in $	
		Price					Trailing				YTD	52 Week		52 Week	
Company	TKR	20-Jun-16	31-Dec-15	Mkt Cap	Yield	1 Day	Week	Month	90 Days	2Q16	2016	High	Low	High	Low
Scana	SCG	$71.36	$60.49	$10,199	3.22%	-0.1%	-0.1%	4.3%	5.1%	1.7%	18.0%	-1.3%	42.7%	$72.30	$50.02
Centerpoint	CNP	23.22	18.36	9,999	4.44%	0.5%	1.1%	5.2%	10.7%	11.0%	26.5%	-0.9%	44.7%	23.42	16.05
Alliant	LNT	38.89	31.23	8,833	3.02%	-0.1%	0.2%	8.3%	8.1%	4.7%	24.5%	-1.5%	43.3%	39.49	27.14
Pinnacle West	PNW	77.48	64.48	8,611	3.23%	-0.4%	1.1%	8.3%	6.7%	3.2%	20.2%	-0.5%	38.3%	77.88	56.01
NiSource	NI	25.09	19.51	8,068	2.63%	-0.7%	0.5%	5.3%	10.0%	6.5%	28.6%	-1.6%	56.4%	25.50	16.04
Westar Energy	WR	55.80	42.41	7,906	2.72%	-0.6%	-0.5%	6.5%	16.6%	12.5%	31.6%	-2.5%	64.7%	57.24	33.88
ITC Holdings	ITC	45.64	39.25	6,978	1.64%	0.7%	0.1%	3.1%	7.0%	4.8%	16.3%	-0.8%	50.4%	46.00	30.35
TECO Energy	TE	27.68	26.65	6,520	3.32%	0.2%	0.2%	0.7%	0.9%	0.5%	3.9%	-0.5%	57.2%	27.83	17.61
OGE Corp	OGE	30.99	26.29	6,189	3.55%	-0.1%	-0.1%	1.4%	11.0%	8.2%	17.9%	-1.7%	32.5%	31.52	23.38
Great Plains	GXP	29.60	27.31	4,580	3.55%	-0.4%	-1.6%	-4.4%	-5.4%	-8.2%	8.4%	-9.6%	23.0%	32.74	24.06
Vectren	VVC	51.30	42.42	4,248	3.12%	-0.1%	-0.2%	6.2%	3.3%	1.5%	20.9%	-1.3%	37.7%	51.96	37.26
IdaCorp	IDA	75.02	68.00	3,782	2.72%	0.0%	0.1%	5.8%	1.3%	0.6%	10.3%	-1.2%	34.3%	75.94	55.88
Portland General Electric	POR	42.41	36.37	3,770	3.02%	-0.1%	-0.2%	4.9%	8.8%	7.4%	16.6%	-1.2%	28.4%	42.92	33.04
Hawaiian Electric	HE	33.89	28.95	3,656	5.90%	-0.2%	1.3%	4.9%	4.9%	4.6%	17.1%	-1.7%	25.4%	34.49	27.02
Black Hills	BKH	62.34	46.43	3,216	2.69%	0.2%	0.3%	6.3%	6.3%	3.7%	34.3%	-1.9%	69.3%	63.53	36.82
Allete	ALE	61.79	50.83	3,044	3.37%	1.1%	1.7%	12.1%	8.7%	10.2%	21.6%	-0.3%	36.3%	61.95	45.32
Northwestern	NWE	61.07	54.25	2,950	3.27%	-0.3%	1.0%	8.1%	1.0%	-1.1%	12.6%	-2.3%	26.1%	62.51	48.44
Avista Corp	AVA	42.38	35.37	2,679	3.23%	-0.2%	-0.2%	6.4%	6.9%	3.9%	19.8%	-1.3%	42.3%	42.92	29.78
PNM Resources	PNM	33.62	30.57	2,678	2.62%	-0.1%	-2.0%	5.4%	1.5%	-0.3%	10.0%	-3.4%	37.7%	34.82	24.42
Madison Gas & Electric	MGEE	54.81	46.40	1,900	2.15%	0.2%	-0.3%	8.8%	9.6%	4.9%	18.1%	-1.9%	49.1%	55.85	36.75
El Paso Electric	EE	45.61	38.50	1,846	2.72%	-0.2%	-0.9%	6.2%	3.8%	-0.6%	18.5%	-3.0%	34.5%	47.00	33.91
Empire District Electric	EDE	33.75	28.07	1,477	3.08%	-0.1%	0.2%	0.7%	1.8%	2.1%	20.2%	-0.4%	63.0%	33.88	20.71
Otter Tail Power	OTTR	31.76	26.63	1,211	3.94%	0.2%	1.3%	9.4%	12.5%	7.2%	19.3%	-0.3%	27.6%	31.85	24.90
Average					**3.2%**	**0.0%**	**0.1%**	**5.4%**	**6.1%**	**3.9%**	**18.9%**	**-1.8%**	**41.9%**		
Median					**3.1%**	**-0.1%**	**0.1%**	**5.8%**	**6.7%**	**3.9%**	**18.5%**	**-1.3%**	**38.3%**		
US Treas 10 yr. Yield	USGG10YI	1.69	2.27			**5.0%**	**4.9%**	**-8.1%**	**-13.0%**	**-4.5%**	**-25.6%**	**-32.1%**	**11.4%**	**2.49**	**1.52**
Philadelphia UTY	UTY	634.44	547.09			-0.5%	0.4%	4.8%	2.8%	0.6%	16.0%	-0.6%	23.1%	638.16	515.23
Sector Spider ETF	XLU	50.34	43.28			-0.4%	-0.3%	4.2%	4.0%	1.5%	16.3%	-1.1%	23.4%	50.90	40.81
S&P Electrics	S5ELUT	287.20	247.30			-0.5%	0.4%	4.9%	3.6%	1.1%	16.1%	-0.6%	25.6%	288.91	228.72
S&P 500	SPX	2,083.25	2,043.94			0.6%	0.2%	1.5%	1.6%	1.1%	1.9%	-2.3%	15.1%	2,132.8	1,810.1
Relative Performance (UTY v SPX)						-1.1%	0.2%	3.3%	1.1%	-0.6%	14.0%				
Relative Performance (XLU v SPX)						-1.0%	-0.5%	2.7%	2.3%	0.3%	14.4%				
Max					5.90%	1.64%	2.32%	12.14%	20.13%	12.48%	34.27%	-0.3%	69.3%		
Min					1.64%	-1.60%	-1.95%	-4.39%	-5.65%	-8.22%	3.86%	-9.6%	15.2%		
Median					3.22%	-0.20%	0.12%	5.51%	5.10%	2.74%	17.92%	-1.3%	34.5%		
Average					3.32%	-0.22%	0.23%	5.30%	5.11%	2.62%	17.72%	-1.9%	36.2%		

Source: Bloomberg, Mizuho Securities USA Inc.

Exhibit 5: Valuation Comparables (based on consensus estimates)

Valuation Table Based on Consensus Estimates

Company Name	TKR	Price 6/20/2016	Annualized Dividend	Yield	3 Year EPS CAGR	3 Year DPS CAGR	Price/Earnings 2016E	Price/Earnings 2017E	Price/Earnings 2018E	Price/Earnings 2019E	Relative P/E 2016E	Relative P/E 2017E	Relative P/E 2018E	Relative P/E 2019E	EV/EBITDA 2016E	EV/EBITDA 2017E	EV/EBITDA 2018E	Price/Book 1Q:2016A
Large-Cap Regulated																		
Ameren	AEE	$51.35	$1.70	3.31%	4.9%	5.1%	20.5x	18.5x	17.1x	16.0x	109%	103%	101%	99%	9.2x	8.5x	8.1x	1.8x
American Electric Power	AEP	66.79	$2.24	3.35%	3.3%	4.7%	18.2	17.4	16.3	15.8	97%	97%	96%	98%	9.8	9.4	9.0	1.8x
Consolidated Edison	ED	77.16	$2.68	3.47%	2.5%	2.3%	19.4	18.6	17.9	17.0	103%	104%	105%	105%	10.1	9.4	9.0	1.7x
Duke Energy	DUK	82.00	$3.30	4.02%	2.8%	4.0%	17.8	17.3	16.5	15.9	95%	97%	97%	99%	10.6	10.0	9.6	1.4x
Edison International	EIX	73.93	$1.92	2.60%	4.6%	11.5%	19.0	17.9	17.1	16.3	101%	100%	101%	101%	8.3	7.7	7.2	2.1x
Eversource Energy	ES	56.82	$1.78	3.13%	5.8%	6.6%	19.1	18.0	16.9	15.9	102%	101%	100%	98%	11.1	10.6	10.1	1.7x
PG&E Corp	PCG	62.57	$1.96	3.13%	8.0%	6.9%	16.8	17.0	16.2	15.4	90%	95%	95%	95%	8.0	7.4	7.0	1.9x
PPL Corp	PPL	39.68	$1.52	3.83%	4.2%	2.3%	16.9	16.3	15.8	15.1	90%	91%	93%	93%	11.4	10.8	10.2	2.8x
Southern Company	SO	50.94	$2.24	4.40%	2.3%	3.3%	17.8	17.2	16.6	16.1	95%	96%	97%	100%	11.0	10.2	9.8	2.3x
WEC Energy Group	WEC	62.94	$1.83	2.91%	6.6%	8.3%	21.5	20.2	19.0	18.0	114%	113%	112%	111%	12.2	11.6	11.0	2.3x
Xcel Energy	XEL	42.75	$1.36	3.18%	5.1%	6.1%	19.4	18.39	17.5	16.2	103%	103%	103%	101%	10.3	9.8	9.4	2.0x
Mean				**3.40%**	**4.53%**	**5.60%**	**18.8x**	**17.9x**	**17.0x**	**16.1x**					**10.3x**	**9.7x**	**9.2x**	**2.0x**
Median				**3.27%**	**4.42%**	**5.40%**	**19.0x**	**17.9x**	**16.9x**	**16.0x**					**10.4x**	**9.9x**	**9.5x**	**2.0x**
Relative to the S&P							*106%*	*114%*	*122%*	N/A								
Small and Mid-Cap Regulated																		
Alliant	LNT	$38.89	$1.18	3.02%	5.7%	6.0%	20.5x	19.4x	18.3x	17.4x	105%	106%	106%	105%	12.4x	11.0x	9.7x	2.4x
Avista	AVA	42.38	$1.37	3.23%	4.2%	3.5%	20.6	19.7	19.2	19.1	106%	108%	111%	116%	10.2	9.6	N/A	1.7x
CMS Energy	CMS	43.56	$1.24	2.85%	7.3%	7.0%	21.6	20.0	18.7	17.5	111%	110%	108%	106%	10.3	9.7	N/A	3.0x
El Paso Electric	EE	45.61	$1.24	2.72%	11.2%	2.2%	18.2	17.5	16.5	N/A	94%	96%	96%	N/A	11.6	10.8	9.9	1.8x
Great Plains	GXP	29.60	$1.05	3.55%	10.9%	7.1%	17.2	16.3	15.5	15.2	88%	89%	90%	92%	9.3	9.0	N/A	1.3x
IdaCorp	IDA	75.02	$2.04	2.72%	2.6%	7.3%	19.3	18.6	18.0	N/A	99%	102%	104%	N/A	N/A	N/A	N/A	1.8x
ITC Holdings	ITC	45.64	$0.75	1.64%	4.8%	12.4%	21.8	20.6	19.1	16.0	111%	113%	111%	97%	13.4	12.3	11.4	4.0x
Northwestern Energy	NWE	61.07	$2.00	3.27%	5.0%	4.8%	18.9	17.9	16.9	15.7	97%	98%	98%	95%	12.3	N/A	N/A	2.0x
Pinnacle West	PNW	77.48	$2.50	3.23%	5.0%	5.0%	19.4	18.4	17.6	17.0	100%	101%	102%	103%	9.4	8.9	8.4	1.9x
PNM Resources	PNM	33.62	$0.88	2.62%	9.3%	11.7%	20.9	17.8	16.1	15.6	107%	97%	93%	95%	9.9	9.0	8.7	1.6x
Portland General	POR	42.41	$1.28	3.02%	5.9%	6.6%	20.1	17.9	17.1	15.9	103%	98%	99%	97%	9.1	8.5	N/A	1.6x
Scana	SCG	71.36	$2.30	3.22%	5.1%	4.3%	17.9	17.2	16.1	15.1	92%	94%	93%	91%	11.1	11.3	N/A	1.8x
TECO Energy	TE	27.68	$0.92	3.32%	7.4%	2.5%	23.4	21.6	20.3	18.5	120%	119%	118%	112%	10.7	10.0	9.6	2.5x
Westar Energy	WR	55.80	$1.52	2.72%	6.2%	4.8%	22.8	22.0	21.2	19.8	117%	120%	123%	120%	10.9	10.4	10.0	2.2x
Mean (excl. ITC,TE, and WR merger-related)				**3.04%**	**6.57%**	**5.97%**	**19.5x**	**18.2x**	**17.3x**	**16.5x**					**10.6x**	**9.9x**	**9.4x**	**2.1x**
Median (excl. ITC, TE and WR, merger-related)				**3.02%**	**5.81%**	**5.53%**	**19.4x**	**17.9x**	**17.1x**	**15.9x**					**10.2x**	**9.6x**	**9.2x**	**1.8x**
Relative to the S&P							*110%*	*117%*	*124%*	N/A								
Integrated																		
American Electric Power	AEP	$66.79	$2.24	3.35%	3.3%	4.7%	18.2x	17.4x	16.3x	15.8x	102%	102%	103%	104%	9.8x	9.4x	9.0x	1.8x
Black Hills	BKH	62.34	$1.68	2.69%	8.4%	4.5%	20.6	17.7	16.6	16.6	115%	104%	104%	109%	11.6	N/A	N/A	2.2x
Centerpoint	CNP	23.22	$1.03	4.44%	6.5%	4.5%	20.2	19.2	18.1	17.3	112%	113%	113%	114%	8.7	8.4	8.0	2.9x
Dominion Resources	D	74.36	$2.80	3.77%	5.9%	7.3%	19.6	19.1	17.2	15.7	110%	112%	108%	103%	13.1	12.1	10.9	3.4x
DTE Energy	DTE	93.91	$2.92	3.11%	5.4%	5.1%	19.0	17.9	16.7	15.7	106%	105%	105%	103%	10.5	9.8	9.1	1.9x
Entergy	ETR	78.11	$3.40	4.35%	-4.1%	2.6%	15.3	15.0	15.1	14.9	85%	88%	95%	98%	8.1	7.7	7.4	1.5x
Exelon Corp	EXC	34.44	$1.27	3.69%	3.4%	2.2%	13.9	13.3	12.4	12.2	77%	78%	78%	80%	8.9	8.9	8.7	1.2x
FirstEnergy	FE	33.74	$1.44	4.27%	-2.3%	0.0%	12.6	13.4	13.4	14.6	70%	79%	84%	96%	8.4	8.2	8.1	1.1x
NextEra Energy	NEE	124.24	$3.48	2.80%	7.5%	13.1%	20.1	18.9	17.7	16.5	112%	111%	111%	108%	11.3	10.4	9.6	2.5x
OGE Corp	OGE	30.99	$1.10	3.55%	4.6%	8.7%	17.5	16.3	15.1	14.1	97%	96%	95%	93%	10.9	N/A	N/A	1.9x
Pub Svc Ent Group	PEG	44.37	$1.64	3.70%	0.7%	5.0%	15.4	15.4	15.0	14.2	86%	90%	94%	93%	8.1	7.8	7.4	1.7x
Sempra Energy	SRE	109.31	$3.02	2.76%	7.0%	8.2%	22.7	20.5	17.7	15.0	127%	121%	111%	98%	12.2	10.7	9.6	2.3x
Mean				**3.54%**	**3.85%**	**5.49%**	**17.9x**	**17.0x**	**15.9x**	**15.2x**					**10.1x**	**9.3x**	**8.8x**	**2.0x**
Median				**3.62%**	**4.97%**	**4.89%**	**18.6x**	**17.5x**	**16.5x**	**15.3x**					**10.1x**	**9.2x**	**8.9x**	**1.9x**
Relative to the S&P							*101%*	*109%*	*114%*	N/A								
S&P 500	**SPX**	2,083.25	$41.53	**1.99%**			**17.7x**	**15.6x**	**13.9x**	N/A	**N/A**							
Philadelphia UTY	**UTY**	634.44	$22.81	**3.60%**			**19.1x**	**17.6x**	**16.5x**	**15.8x**	107%							

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 $67 per share 12-month target assumes a 16.0x P/E multiple on our 2018 EPS estimate of $4.18 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.

Avista Corporation

Our $41 per share, 12 month price target for AVA is based on a group average P/E multiple on 2018 earnings estimates. We do not attribute any merger speculation, and/or premium, in our valuation assessments unless there is company confirmation or credible news agencies reporting otherwise. We also utilize EV/EBITDA, DDM, and Price to Book methodologies to help triangulate valuation.

Key risks include general economic conditions as it affects underlying customer growth and capital investment, usage and sales volumes. Although AVA is decoupled from a weather-related perspective, its hydrology volumes are not and the underlying cost of power production could change materially based on snowpack. Changes in state and/or Federal regulation, environmental compliance and execution risk related to ongoing business operations are other key risks.

Consolidated Edison, Inc.

We value Consolidated Edison primarily utilizing relative P/E multiples and employ DDM valuation methodologies for triangulation purposes. We utilize a large-cap, regulated P/E multiple on our 2018E instead of a premium valuation as ED heads into a major regulatory proceeding.. 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 $75 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 $75 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 $59 per share, 12 month price target represents a 7.5% premium to the regulated group average P/E of 16.1x 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.

NorthWestern Corporation

We value NWE utilizing five valuation methodologies – P/E, EV/EBITDA multiple, DDM, DCF and Price to Book – but rely primarily on P/E given that its EPS stream is derived entirely from regulated activities. The shares are currently trading at a P/E of

16.8x our 2018E, versus a peer median of 17.2x, suggesting the shares are appropriately valued. The P/E methodology utilizes group average multiples as a Base Case and adjusts the multiples from there. The DDM utilizes current 10 Year Treasury as the risk free rate and an 8% equity risk premium and incorporates historical growth for its dividend expectations in the perpetual case.

Risks include lower earnings growth driven by declining customer growth, uncontrollable costs, or regulatory outcomes that negatively affect the company's cost of capital and impinge on its ability to raise capital at competitive 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.

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 $64, equating to a 16.4x multiple on our 2018E, representing a modest, 3% 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 $84 per share price target is based on a 16.8x P/E multiple on 2018. We also use sum of the parts, single- and two-stage DDM, and price-to-book to help triangulate valuation. Key risks include execution risk with the nuclear project; the cost of building the two new nuclear units is roughly 75% of 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 and assign a $60.00 per share 12-month target price. Our target price is based on the merger consideration of $60 per share consisting of

$51 per share in cash and $9 per share in stock. The collar mechanism offers a +/- 7.5% protection range using precedent transaction multiples to arrive at our price target.

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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Underperform:	Stocks for which the anticipated share price falls by 10% or more.
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NR:	No Rating - not covered, and therefore not assigned a rating.

Rating Distribution

(As of 6/20)	**% of coverage**	**IB service past 12 mo**
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Hold (Neutral)	51.71%	24.53%
Sell (Underperform)	1.46%	33.33%

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