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Enbridge Inc.

Enbridge Announces U.S. Gas Utilities Acquisition

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Enbridge Inc.

Enbridge - Confidential Call

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PRESENTATION:

Rebecca Morley^ Good afternoon, welcome to the webcast, and thank you for joining us. Today, we will be discussing the acquisition of three U.S. gas utilities, which was announced earlier this afternoon. Joining me are Greg Ebel, President and CEO, and Pat Murray, Executive Vice President and Chief Financial Officer. As usual, I encourage those listening to follow along with the supporting slides. Please note, we will not be conducting a Q&A session following the call today.

However, both the Investor Relations and media teams will be available following the call. Onto slide two, where I will let you know that a short form base shelf prospectus and a preliminary prospectus supplement, dated September 5, 2023, has been filed with the securities regulatory authority in each of the provinces of Canada. We have also filed a preliminary U.S. prospectus supplement with the U.S. Securities and Exchange Commission.

We will be referring to forward-looking information on today's call. So, a quick reminder that by its nature, this information contains forecast assumptions and expectations about future outcomes, which are subject to the risks and uncertainties outlined here and discussed more in our public disclosure filings. Lastly, before we begin, I'd just like to point out that we'll also be referring to non-GAAP measures, which are summarized below. With that, I'll now turn it over to Greg Ebel.

Greg Ebel^ Thank you, Rebecca, and good afternoon, everyone. Thanks for joining us. I am very excited to announce an acquisition in our gas distribution and storage

business, an announcement that we believe represents a generational opportunity for the company. Enbridge has entered into agreements to acquire three U.S. utilities, creating North America's largest natural gas utility platform by volume, with approximately 7,000 employees proudly serving some 7 million customers.

The total consideration for the transaction is CAD $19 billion in cash and assumed debt. And in conjunction, we've announced an equity bought deal which significantly de-risks our funding plan and provides investors access to a company with increased scale and diversification. We expect to close this transaction next year, following regulatory approvals. Before I get into my prepared marks, let me take a step back.

This type of opportunity isn't something I would have envisioned being possible just eight months ago when I began serving as Enbridge's CEO. We had a robust opportunity set in front of us, and we still do, which could achieve the financial outlook and strategic priorities we outlined at Investor Day, without the need to do a large transaction or utilize external equity.

But a deal like the one before us was just not on the horizon. Today, however, we have a transaction that represents a rare and unprecedented opportunity to acquire high quality, growing natural gas utilities at scale and at a historically attractive valuation. The utilities are all located in supportive regulatory regimes, offer diverse, low risk growth opportunities, and will deliver accretion in the first full year of ownership. In addition, Enbridge will maintain its balance sheet strength and growing dividend profile.

We'll talk more about this throughout our presentation today but let me start off by highlighting how the deal enhances the value proposition we laid out for you at Enbridge Day. I will then provide an overview of how this unique asset acquisition is expected to deliver long-term shareholder value. Next, I'll take you through how acquiring utility cash flow further enhances our business diversification and highlight our business integration experience.

Pat will then walk you through how the acquisition further de-risks our growth outlook and the enviable flexibility we have in our financing plan. Lastly, I'll close with a few key takeaways. With that, let's jump into it. At Enbridge Day, we outlined what the company's value drivers are, stability, strength, consistence, growth, and optionality.

The acquisition we announced today supplements each of those, further enhancing our long-term value proposition. Adding three high quality U.S. gas utilities further underlines the stability of our industry leading risk profile. Incremental regulated earnings improves our cash flow quality, while the funding plan allows us to maintain our balance sheet strength. An even more steady and reliable cash flow profile will support long-term dividend growth, reinforcing our strong track record.

The assets come with attractive rate-based growth profiles, adding capital efficient low risk annual investment, which further de-risks our previously disclosed growth outlook. A quick cycle from capital investment to earnings and cash generation these assets provide set us apart from our sector peers. Lastly, the utilities each have low carbon initiatives that are similarly aligned with Enbridge's ESG goals and provide longer term growth opportunities.

In short, we see this being an extremely rare opportunity to acquire gas utilities of scale in support of jurisdictions at an extremely attractive price. And let me expand on this further. At CAD $19 billion, this transaction is indeed bigger than the asset tuck-ins we've been executing. Given our strict risk reward preferences, doing a transaction of this size required careful consideration.

An opportunity of this size had to align with our low-risk business model, be accretive on per share metrics, maintain balance sheet strength, and include a growth kicker to supplement our existing growth platform. This deal checks all of those boxes. You've heard us say many times before that we seek utility like returns.

So, when we have the opportunity to add exactly that, utilities with high quality regulated utility cash flows, it made complete sense to prudently pursue it. The transaction will create North America's largest natural gas utility platform at historically attractive acquisition multiples of approximately 1.3x the estimated 2024 rate base and approximately 16.5x earnings based on 2023 estimates.

For context, a gas asset package of this size has not hit the market in at least a decade, with recent average U.S. utility transactions going for approximately 27x price to

earnings and 2.2x Enterprise value to rate base. The unique combination of scale and price were key factors in our decision to execute this transaction.

The deal is expected to be accretive to DCF per share and earnings per share in the first full year of ownership and increases over time driven by the strong utility growth profile of the assets. Natural gas utilities are must-have infrastructure providing safe, reliable, and affordable energy. This is right in line with our long-term low risk business model.

After the closings, our utility business will be more diversified and double in size. This will further enhance the stable cash flow generation which supports our long-term dividend growth plans. Lastly, location is an important consideration when evaluating utilities. We believe the assets are located in premier jurisdictions, and I'll touch on why next. Enbridge has entered into agreements to acquire the East Ohio gas company, Questar Gas Company, and its related Wexpro companies and the Public Service Company of North Carolina.

The utilities service major demand centers in Ohio, Utah, Wyoming, Idaho, and North Carolina with average projected growth population exceeding the U.S. average of approximately 2% per year. Consolidated rate base is expected to grow 8% per year underpinned by constructive authorized ROEs and equity thickness. New customer connections, modernizing to ensure resiliency of the system and enabling fuel switching will meaningfully impact the communities we will serve.

Transparent regulatory regimes in gas supportive jurisdictions create constructive rate settlements and support the long-term diversified rate-based growth that supports the safe delivery of reliable and affordable energy to customers. The utilities have a variety of cost recovery mechanisms resulting in improved capital efficiency with a short cycle between capital investment and cash generation, including in some instances where planned capital in test years earns a timely regulated return.

Now, let's take a look at how this diversifies our overall business and enhances our commercial profile. Our business mix is roughly a 60/40 split today between liquids and natural gas and renewables. This generates approximately CAD $16 billion of EBITDA with a premium secured capital program of CAD $19 billion. This acquisition is expected

to deliver significant low risk utility EBITDA growth in the first full year of operations and add CAD $1.7 billion per year of regulated utility capital investment.

This will result in a meaningful shift in our post-acquisition business mix with approximately 50% of the EBITDA attributable to natural gas and renewables and a secured growth program more heavily weighted to low-risk utility capital.

We remain firmly of the view that all forms of energy will be required for a safe and reliable energy transition. This transaction helps to achieve greater balance and gives us increased exposure to natural gas, which is and will continue to be the critical fuel to help realize our lower carbon aspirations.

The acquisition enhances our commercial profile by increasing the proportion of EBITDA underpinned by regulated cash flows. 98% of our EBITDA is generated from low-risk businesses with virtually no commodity risk exposure. We are the only major pipeline and midstream company with regulated utility cash flow. Post acquisitions, about a quarter of our EBITDA will be generated from regulated utilities, which further reduces our already industry-leading business risk profile.

With this transaction, we double the size of our utility business and diversify our footprint. Let's dig deeper into how that strengthens our utility business. This transaction creates a first-choice natural gas utility franchise that will be the largest in North America. Our gas distribution business will not only double in size, but it'll significantly diversify across geographies, multiple jurisdictions and regulators, resulting in EBITDA approximately split 50/50 between Canada and the U.S.

We will deliver approximately 9.3 Bcf a day to 7 million customers and welcome over 3,000 new employees to the Enbridge family, bringing total employees in our utility business to approximately 7,000. The manner in which assets are operated and the core values of people who operate them align strongly with our existing utility. We have extensive utility experience and a track record of safely and reliably delivering gas to our customers.

Our Ontario employees are committed to the highest standards of safety with a goal of zero incidents, with ESG initiatives being core to all facets of our utility business

operations. The utilities being acquired also have a strong track record of asset performance and safety, with strong operational teams possessing decades of experience reinforcing safety as a core value. Also similar to Enbridge is the commitment these utilities have to embedding sustainability and lower carbon initiatives in their operations.

A focus on social, community and inclusion initiatives are core to strategy and decision making and ensure strong alignment with Enbridge's core values as well. This isn't the first time we've integrated an asset. Enbridge has extensive experience integrating businesses.

Since our inauguration as a single purpose crude oil pipeline in 1949, we have had a long and successful track record of integrating businesses. In 1994, we acquired Consumers Gas, a gas distribution utility in Toronto that marked our entry into the utility business, followed by diversification into gas transmission with the acquisition of Alliance Pipeline.

In 2017, we completed a transformational merger with Spectra Energy, combining to create a global energy infrastructure leader with increased scale across all business lines. Each company had utility businesses with complementary assets that we successfully merged in 2019, giving us credible and recent experience integrating utilities.

More recently in our liquids segment, we acquired the Enbridge Ingleside Energy Center and took operatorship of Gray Oak Pipeline, delivering strong operational performance and integration success.

And this year, we are continuing our track record of successful integrations with the acquisition of Aitken Creek and Tres Palacios. So, now let me turn things over to Pat to walk you through how the transaction de-risks our growth outlook and our financing plan.

Patrick Murray^ Thanks, Greg. I'm equally excited about this opportunity. This transaction enhances our premium low risk growth backlog of CAD $19 billion by adding on average CAD $1.7 billion of rate-based investment per year. Our secured backlog is

expected to grow by CAD $5 billion upon closing. The new secured capital will be diversified across population growth, infrastructure replacement, and supportive of fuel switching and reliability investments.

We think of the new capital as singles and doubles with no singular large or risky projects. Each is an important part of delivering safe, reliable, and affordable energy to existing and new customers. Post acquisitions, we expect approximately 40% of our secured capital program to be utility CapEx, which has several attractive features. The capital added to the backlog will be in gas friendly jurisdictions with low permitting risk and will earn regulated returns as it's added to rate base.

There is limited delay and inflation risk on this capital, setting it apart from the challenges seen in the pipeline and midstream sector with executing new Greenfield projects. Increased utility exposure will improve our capital efficiency with a shorter time period between investing capital and generating earnings and cash flow. This will reduce our capital risk and provide investors with clear line of sight to regulated returns earned on the assets.

Regulated allowed ROEs and equity thicknesses provide attractive economics for the assets and the fixed variable rate design desensitizes earnings to volume changes supporting stable cash flows. Rateable low risk capital efficient growth added to our secured backlog further de-risks the growth outlook we laid out at our Investor Day, which I'll touch on next.

Our focus on optimizing the business remains unchanged. With inflation protection on approximately 80% of our cash flow through toll escalators and actions we are taking to recover capital through rate settlements, recontracting, and productivity enhancements, we remain confident we can deliver 1% to 2% of growth per year.

On secured growth, this transaction de-risks our outlook. We're adding CAD $1.7 billion of annual average investment to our existing plans, which gives us increased confidence in organically growing our business by 1% to 2% per year over the long term and further supporting our 5% overall annual growth rate post 2025. The acquisition will deliver strong EBITDA and cash flow growth in the first full year. This transaction deploys some

of our near-term balance sheet capacity, so looking ahead, we expect to be even more selective on how we deploy remaining investment capacity.

Our secured growth commitments will exceed our CAD $3 billion of core capital allocation, which means we'll pause opportunistic share repurchases and evaluate them in the future. We will prioritize funding our enhanced secured growth backlog, developing organic projects from our robust opportunity set and evaluating further tuck-in M&A with remaining investment capacity.

As we look at our near-term outlook, we reaffirm our financial guidance for 2023 despite plans to prefund a significant portion of this acquisition, thereby de-risking the financing plan. We expect the base business will continue growing, and we are reaffirming our near term and medium-term outlook. 2024's growth will be offset by aspects of our financing plan which will be executed through the year ahead of receiving the entirety of the asset's cash flow in 2025.

We will share additional detail on our 2024 outlook and highlight the base business performance when we release our guidance later this year. For 2025, we expect a significant EBITDA contribution to potentially push us up above the top end of the three-year range and the deal accretion to generate DCF per share and earnings per share growth that enables us to reaffirm our per share guidance.

Looking at the medium term, the acquired assets provide an attractive growth profile with reliable returns, which gives us confidence in reaffirming our expectation of growing the business by 5% per year post 2025. Our plans to grow the dividend remain unchanged. It forms an important part of our total shareholder return proposition, and we expect to grow the dividend up to the medium-term cash flow growth while maintaining our committed payout range of 60% to 70% of distributable cash flow.

Now, let's move over to funding plan to discuss how we plan to finance this transaction. The purchase price amounts to CAD $19 billion, with cash consideration of approximately CAD $13 billion and assumed debt of CAD $6 billion. With today's equity financing announcement, we do not expect to have any other discrete equity offerings. The remaining financing needs will be satisfied over time through an all of the above approach, which could include one or all of the following.

Our projected EBITDA growth and increased balance sheet capacity will generate incremental hybrid capacity. The instrument receives 50% equity treatment by credit agencies, resulting in them being an attractive form of financing.

Term debt will be considered given we entered into the transaction at the low end of our target leverage range, providing some financing flexibility. Other future options for funding could include our ongoing capital recycling program, a reinstated dividend reinvestment plan, and, if needed, an ATM program.

Each option will be considered, providing us with flexibility to fund the acquisitions given the expected staggered closing of the assets in 2024. We will continue to evaluate recycling capital as part of our ongoing efforts to maximize shareholder value. Our program has delivered CAD $11 billion of divestitures over the last five years at attractive multiples, including our recent landmark deal with 23 indigenous groups in Alberta.

In short, we see our funding plan being very manageable given the multiple funding sources we have available and the extended time frame for execution. Preserving flexibility is an important part of our plan. We feel confident in our ability to execute each option and look forward to providing financing updates in due course. Lastly, funding the acquisition with substantial upfront equity ensures we maintain strong investment grade credit metrics.

Our base business cash flows have negligible commodity price risk and are almost entirely backed by high quality investment grade counterparties. This acquisition further lowers our business risk by providing increased scale, enhanced cash flow diversification, fully regulated cash flows, and assets located in supportive regulatory regimes. In planning for the acquisition, we've been through a formal review with our rating agencies. All recognized the credit enhancing nature of the low business risk of these utility assets.

Beyond that, their outlooks will likely be influenced by their views of the midstream and utility sectors and execution of our flexible funding plan. Our key message to them, as it is to you here today, is that we will continue to manage the balance sheet well within

our long standing prudent financial guardrails, which is leveraged target of 4.5x to 5x debt to EBITDA while maintaining a dividend payout ratio of 60% to 70% of DCF.

EBITDA growth from this and the rest of our growth portfolio will support financial flexibility as low risk capital is invested, which will enable leverage to trend down over time. Now, let's take a closer look at the next steps for closing. The regulatory review process will begin immediately with both federal and state approvals required.

We have confidence in the merits of the deal and anticipate our application process will be normal course. We have a clear path forward to closing in 2024 and look forward to working with governments, employees, customers, regulators and other stakeholders to ensure a smooth transition. So, with that, I'll turn it back to Greg to wrap things up.

Greg Ebel^ Well, thanks very much Pat. As we wrap up here, I want to leave you with a few key takeaways on why we are so bullish about this transaction. This is without question a historically rare opportunity. We are acquiring high quality growing gas utilities of scale for an attractive price. Increased utility cash flow diversifies and lowers our already industry-leading business risk profile and makes our business model even more utility-like.

Low risk, capital efficient rate-based investments enhance our premium growth profile and de-risks our long-term outlook by adding must-have natural gas utility infrastructure. Our balance sheet strength is maintained by a flexible funding plan that includes equity prefunding that materially reduces funding risk with various sources available to fund the remaining capital required.

Additionally, high quality regulated cash flow supports dividend growth, long-term shareholder returns and positions us as a first-choice investment opportunity today and going forward. Thank you for listening, and we look forward to talking with you soon.

Rebecca Morley^ Thank you, and we appreciate your ongoing interest in Enbridge. As mentioned before, the Investor Relations team will be available following the call for any questions that you may have. Once again, thank you and have a great day.