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EMA.TO - Emera Inc Conference Call to Discuss the Acquisition of TECO Energy Inc

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PRESENTATION

Operator

Good evening ladies and gentlemen and welcome to Emera conference call and webcast. The call will feature slides that we be available on Emera's investor relations website. You can access the webcast and slide at investors.Emera.com.

(Operator Instructions)

Please note that this call is being recorded on today, Friday September 4, 2015 at 7 p.m. Atlantic or 6 p.m. Eastern time.

I would like to now turn the meeting over to your host for today's call, Scott LaFleur, manager, investor relations for Emera. Please go ahead Mr. LaFleur.

Scott LaFleur - *Emera Incorporated - Manager of IR*

Good evening and thank you everyone for joining us for an important transformational announcement for Emera today. Earlier Emera was pleased to announce a definitive agreement to purchase TECO Energy in an all-cash transaction.

Joining me today to discuss the transformational transaction are Chris Huskilson, President and CEO of Emera. We are also happy to welcome from TECO John Ramil, President and CEO of TECO Energy; Sandy Callahan, CFO, TECO Energy; and Mark Kane, Director of Investor Relations, TECO Energy. Also joining us is Scott Balfour, Executive Vice President and CFO of Emera and other members of Emera's management team.

This morning Chris will begin with an overview of the transaction along with the strategic rationale behind the decision followed by John Ramil who will provide an overview of TECO Energy. Scott Balfour will follow discussing the financing overview and the combined business profile. Chris will finish the presentation discussing our stakeholders and then providing his closing remarks.

We expect the presentation segment to last about 30 minutes after which we will be happy to take questions from analysts.

I will take a moment to advise you that this conference call will contain forward-looking information and statements with respect to Emera and the acquisition of TECO Energy. Forward-looking statements involve significant risks, uncertainties and assumptions. Certain material factors or assumptions have been applied in drawing the conclusions contained in the forward-looking statements.

These factors or assumptions are subject to inherent risks and uncertainties surrounding future expectations generally. Such risk factors or assumptions include but are not limited to the ability to obtain stockholder, regulatory and other approvals and to satisfy conditions to closing, the ability to realize expected the benefits of the acquisition, regulation, energy prices, general economic conditions, weather, derivatives and hedging, capital resources, loss of service area, licenses and permits, environment, insurance, labor relations, human resources and liquidity risk. A number of factors could cause actual results, performance or achievement to differ materially from the results discussed or implied in the forward-looking statements.

For additional information with respect to certain of the risk factors, reference should be made to Emera's news release regarding the TECO acquisition and its continuous disclosure materials filed from time to time with Canadian securities. In addition please note that this conference call is being widely disseminated via live webcast. And now I will turn things over to Chris.

Chris Huskilson - *Emera Inc - President & CEO*

Thank you, Scott, and thank you everyone for joining us on this call. We know it was short notice and we appreciate your attendance late on Friday on a long weekend.

But this is a transformational announcement for Emera and so we're very excited about this important day both for Emera and TECO Energy, employees, our shareholders and the business as a whole. I am very pleased to be here to talk about the combining of these two leading energy companies.

I'd also like to send out a special thank you to John Ramil for speaking about Tampa Electric today and welcome John. And as well as thank you Sandy for joining us.

Emera has prepared for a transformational transaction for some time and we found our perfect match in TECO. Our patient approach and disciplined investment criteria have resulted in a transaction that is significantly accretive to EPS and cash flow for Emera's shareholders and one that advances our strategic objectives.

With that I think we'll start on Scott, is it page 4?

Scott LaFleur - *Emera Incorporated - Manager of IR*

Yes.

Chris Huskilson - *Emera Inc - President & CEO*

On page 4 of the presentation. We have been patient and we have taken a disciplined approach to our business as a whole. And that's resulted in us being able to merge with a pure play regulated utility.

And that pure play regulated utility is creating a tremendous, a significantly accretive transaction for Emera shareholders, one that moves our strategic objectives forward at a much faster pace than we originally had expected. I certainly consider TECO and Emera a perfect match.

It's significantly accretive in that in the first it is accretive in the first full year and by the third year it will be greater than 10% more accretive to the business. It accelerates our growth in regulated earnings and in fact essentially in one step we meet our regulated earnings target. It enhances the ability to support our targeted 8% dividend growth through 2019 and now we believe beyond.

It expands our regulatory platform into natural gas distribution, an objective that we've had for some time as our shareholders would know. And it really creates increased scale for the business; in fact, top 20 North American regulated utility.

The transaction itself and as you've seen from the earlier press release we're essentially doubling the Company. Emera is to acquire TECO Energy for $27.55 per TECO, and share on a 100% cash consideration. That's an equity purchase price of $6.5 billion, a 48% premium to TECO's unaffected share price and a 25% premium to TECO's unaffected 52-week high.

TECO has as part of its asset base it includes $1.7 billion of net operating tax losses and alternative minimum tax credits which provides significant accretion to cash in the early years of this transaction. So if you take that value out of the transaction we see a multiple of enterprise value to EBITDA of 10.8 and a multiple of enterprise value to rate base of approximately 1.6.

The transaction is fully supported for the $6.5 billion of equity by a fully committed bridge loan backed by JPMorgan and Scotiabank. And the transaction is expected to close in mid-2016. And Scott will speak quite a bit more about financing a bit later.

Turning to the next page, our patience has really paid off. And we've been preparing ourselves for a transaction of scale with a regulated utility for some time. We have grown organically, both our rate base in cleaner affordable energy, in transmission system development and also in greening our generation and our fuel to asset strategy.

We moved forward our balance sheet and we've strengthened our balance sheet through profitable growth, our disciplined approach to capital allocation and our focus on cash flow. And we've been able to create complementary accretive cash flow generating businesses like the work we do it in our Emera energy trading business and also the New England gas plants that we've recently purchased.

All of those things have built capacity in our organization and capacity to move forward with a transaction of this scale.

As well we've grown our people. The organization has grown in capacity from a leadership development perspective and that gives us more depth.

Last but not least we have a proven track record on strategy. We have successfully executed acquisitions and acquisitions in the US and we've also successfully driven growth in new platforms. So all in all this business is ready for this type of growth and we very much welcome the opportunity.

Together we are building a North American energy leader. The acquisition of TECO accelerates the achievement of our financial goal.

As I said earlier this transaction is accretive in the first full year and in fact 10% or more accretive in the third full year. That's one of the things that attracted us to this transaction that we saw substantive and significant real accretive growth.

It also provides additional support to our dividend. And as you all know we raised our dividend early in August and we also raised our dividend growth target guidance. And this transaction provides support for that which will see us being able to pursue that target beyond 2019.

And last but not least a very important part of our target is to grow our regulated earnings and in fact essentially in one step we actually hit our regulated earnings target. There's tremendous alignment between these two businesses. Whether you think about the asset bases of the business or whether you think about the people of the business we're very much aligned with TECO Energy and that we think will be very, very important to our growth in the future.

We have experienced management teams and very much aligned cultures. Our approach to safety and customer service and the innovation that we see as opportunities in the business are very very similar and we definitely see eye to eye.

This provides a new growth platform for our business. And we will now be working with 7,400 people in our business, all of them working to serve our customers and to grow our business for our shareholders.

In this case this new platform is concentrated in growth markets in constructive regulatory jurisdictions. It expands us into new LDC businesses and it also provides an expanded US platform for the business as a whole.

Moving to page 9, this transaction achieves transformational scale in a relatively noncomplex step and that is an extremely important part of this transaction. TECO is a large business but it's very concentrated and that concentration is going to be very, very helpful to our transition as we merge these two businesses together.

Tampa Electric is very similar to Nova Scotia Power. It faces similar challenges and opportunities, has a similar type of generation fleet and looks at similar opportunities. So when we think about that it means that the businesses have a lot in common and that allows, that will allow us to work very, very well together.

Then last but not least the fact that TECO Energy is essentially a pure play regulated business is a fact that very much helps our future.

As well we have geographic and regulatory diversification here. Even the simplicity of the fact that the seasonality of the two businesses is very different helps to smooth out the business over time. And last but not least it allows us to enter two new regions geographically.

With that I will turn things over to John who will give you a bit of an overview of TECO Energy. John?

John Ramil - *TECO Energy - President & CEO*

Thank you, Chris. First let me congratulate you and your team on this transaction and thank you publicly for the great work and professionalism of all your folks and particularly the last several hours as we put the rollout plans together. Thank you very much, Chris.

Let me think all of you all for joining us this evening for this very, very important announcement. Today I'll give you some background on TECO Energy and our operations, talk a little bit about the very favorable regulatory climates that our utilities operate in and spend a little bit of time talking about the vibrant Florida and New Mexico economies.

It's this combination of factors that really are contributing to our ability to make significant investment in our utilities and grow rate base at a compound annual growth rate of 5% to 7% through 2017. Our goal is to translate that rate base growth to earnings growth and we've been performing on track to do just that.

TECO Energy is the holding company for three regulated utilities. Tampa Electric is a vertically integrated electric utility that serves about 700,000 customers in a 2,000 square mile service territory in West Central Florida, in Tampa and the areas surrounding. A very compact and dense service territory with respect to customers.

We have fossil fuel generation. We have Florida regulated transmission to serve our own system and of course the distribution system for that last mile of service to the customer.

We own and operate four plants with three main plants having a combined generating capacity for about 4.7 gigawatts. We're currently expanding the Polk Power Station by converting four simple cycle combustion turbines at that plant to highly efficient natural gas fired combined cycle operation. It's that expansion that is a big driver in our expected rate base growth through its 2017 in-service date.

We have a regulatory agreement in place that provides for $110 million of higher base rates effective January 1, 2017 or when that plant comes into service. And that's a deal that's already in place and will happen when that plant comes online. The project is on budget and on schedule for that January 2017 in-service date.

In addition we recently announced two new utility scale solar photovoltaic projects. The first is a 2 megawatt facility on the roof of a parking garage at Tampa International Airport and that's currently under construction. The second is a 25 megawatt facility on land adjacent to our Big Bend Power Station and that plant will be in service by the end of next year.

Our regulated Florida natural gas distribution utility is Peoples Gas. Peoples Gas serves more than 350,000 customers throughout the state of Florida and operates and serves customers in all the major metropolitan areas of the state. And it is Florida's largest natural gas distribution utility.

Last year we had an annual throughput of almost 1.5 billion therms and expect that to grow. We're having good success, not only with traditional growth but with the conversions of heavy vehicle fleets to compressed natural gas. And we expect by the end of 2015 we will have over 1,000 vehicles converted to compressed natural gas on the Peoples Gas system.

We own another regulated natural gas distribution utility, New Mexico Gas Company. And that's a company which we acquired and closed on the acquisition of just about one year ago.

That business serves more than 510,000 customers and like Peoples Gas it's the largest natural gas distribution utility in that state. New Mexico Gas has 12,000 miles of pipe in its system including about 1,600 miles of high-pressure transmission pipelines.

All three of our utilities have a customer mix that's heavily weighted to the residential and small commercial customer mix. And that tends to yield higher margins because of that mix.

In addition to our regulated utilities we do have a coal company in our business mix. The primary product driving that business is a high quality coal used in the production of steel.

We have actively been in the process of exiting that business for the last several months. We announced an agreement to sell that business last October and moved it into operations for financial reporting purposes at that time. We continue to work with potential buyers to complete a sale and expect that to happen sooner rather than later.

All three of our utilities operate under traditional rate of return regulation with attractive allowed returns on equity and they also have prices that are competitive in their regions. As a result of this 2013 rate case settlement Tampa Electric has an allowed ROE midpoint of 10.25% and is currently earning above that level. As a result of a 2009 rate case decision Peoples Gas has an allowed ROE midpoint of 10.75% and is also returning about that midpoint level.

In Florida rates are set at the middle of an allowed ROE range that has a 100 basis point band on either side. A company can earn up to the top of that allowed rage before the regulators become concerned about overearning. And if the company is earning below the bottom of its allowed range it can seek rate relief with interim rates to bring it back to the bottom of its allowed range.

As a result of its 2012 rate case settlement New Mexico Gas has an implied ROE of 10%. It's currently earning just below that level and we have improved its performance over the past year of our ownership. And our goal is to have them earning their allowed ROE.

All three utilities have the traditional fuel and conservation cost recovery costs. In addition Tampa Electric has an environmental cost recovery clause which allows it to recover the cost and earn a return on investments made to comply with new environmental regulations.

Tampa Electric also has phased in higher base rates as a result of the 2013 rate case settlement. Almost $70 million are already in effect with $110 million that I mentioned earlier which we will see in 2017 when the Polk conversion project goes into service.

The next slide before you, on that slide you can see the strength of the Florida economy and the steady growth in New Mexico. The Florida economy market has rebounded very nicely from the depths of the recession. Unemployment is trending down nicely and the state continues to add jobs.

New Mexico has had steady but slower growth. It has benefited from the energy industry so it was not hurt as badly with job loss in the recession as Florida. The current oil price environment has cost some jobs in some portions of the state but other areas are growing.

Like employment the economy is recovering nicely. Our strategy has been to own and operate utility businesses that will grow at or better than the national average. And that is the case with our most recent quarterly customer growth rates of 2.2% at Peoples Gas, 1.8% for Tampa Electric and 7/10 of a percent for New Mexico Gas.

With that description, Chris, I will turn it back to you.

Chris Huskilson - *Emera Inc - President & CEO*

Well, thank you, John and I think Scott is going to take us through the next few slides. Scott?

Scott Balfour - *Emera Inc - EVP & CFO*

Thanks, Chris, thanks John.

So as Chris mentioned financing of this transaction is fully supported with a $6.5 billion fully committed bridge financing that's been provided to us led by JPMorgan and Scotiabank. Of course our long-term financing strategy is very much centered upon and designed to achieve a credit neutral impact working to maintain the existing credit rating profile of Emera and TECO and our rated affiliates.

The actual execution of the permanent financing will be by way of placements of common equity, of preferred equity and long-term debt, the timing of which will be influenced through the process of regulatory approvals and of course prevailing market conditions. As we do look to finance this we will look to finance most of the debt and preferred share financings in US dollars which of course will assist in providing a bit of a natural currency hedge relative to movements of the US and Canadian currency.

In thinking about the combined business profile between in combination of Emera and TECO this slide here talks to the scale impacts of Emera pro forma this transaction. Of course the transaction for us isn't about scale, it's about acquiring a terrific business led by a great team and people with strategic fit and providing an opportunity for driving future growth. But it does of course provide a significant positive impact upon scale and that incremental scale is important in terms of building and providing incremental organizational capacity and capability through the combined team.

We do end up in the top 20 position from a North American regulated utility context. And of course with that benefit that increased scale does provide some access to capital market advantages to further enhance strong access to capital markets that Emera and TECO both enjoy today.

If we look at the expanded geography and regulatory impacts that this transaction has for Emera of course we now end up with significant and positive diversification through the regulatory environment that we now operate Emera today and obviously in Nova Scotia, in Maine, in Newfoundland Labrador and in the Caribbean adding benefit of TECO's businesses in Florida and New Mexico. And pro forma the transaction of the combined business would have about 2.4 million customers combined throughout those regulated geographies.

Although I think what's interesting when you think about the diversification impact is looking at the geography, today about half of Emera's earnings come from Canadian-based operations with about 43% from the United States and another 7% from the Caribbean. And you'll see in this transaction pro forma the combination on a trailing 12-months basis as of June 30, 2015 for illustration you see that the Canadian portion of the earnings base would be approximately 25%, in the US increases to about 71% and the Caribbean represents about 4%.

And this really provides great diversity to the revenue, the earnings profile of the business. But importantly through the combination it also significantly improves the portion of our earnings and EBITDA that's generated from regulated businesses. And Emera's really strong performance over the last few years through its unregulated businesses of Emera Energy and the New England Gas generation fleet that we recently acquired has driven that strong performance, has meant that our strategic goal of maintaining 75% to 85% of our earnings from regulated entities has trended lower.

And the benefit of this transaction is it brings our regulated EBITDA back to 90% or higher and our regulated earnings pretty close to 85%. In fact, 84% on a pro forma and historical basis.

If we look at the capital expenditure profile of a combined Emera-TECO organization is about CAD6.5 billion -- these are Canadian dollars -- through 2015 to 2019, plus or minus CAD2 billion per year that Emera and TECO will be spending on a combined basis investing in (technical difficulty) in 2015 and 2016, another CAD4.2 billion over the 2017 to 2019 period which is about CAD1.4 billion per year. Of course that capital profile will continue to grow as those years become closer. And of course it's this capital investment that will drive future earnings growth and cash flow growth for the combined Emera-TECO enterprise moving forward.

And with that I will pass it back to Chris.

Chris Huskilson *- Emera Inc - President & CEO*

Well, thank you, Scott. When we think about this transaction we think about it through a number of different lenses. And some of those lenses that are extremely important to us is our customer approach.

And as we think about the customers things like the commitment, our commitment to honor all the stipulations in respect of the 2014 TECO acquisition of New Mexico Gas. That's a very important part of this transaction and it's a very important commitment from Emera's perspective.

As well and as always we're focused on customer service. TECO has been focused on customer service over its history as has Emera. And together that focus will continue and enhance.

Our operational excellence, ensuring that we run our businesses in the best possible way, safe and efficient for our employees and the public. And also investing in cleaner, reliable, affordable energy for our customers.

Those are the commitments that we make to our customers as part of this transaction. They are commitments that we have had as two separate entities and commitments that we will enhance as a combined entity.

The communities that we serve, those are also very important to us. And as it relates to Florida and New Mexico communities we will continue to invest as TECO has in those communities and in community activities. Very important to Emera in the communities we serve today and that will continue in this expanded group of communities.

As well the preservation of the existing headquarters both here in Tampa Bay and also in Albuquerque, that's a very important part of the transaction for us. And when we think about bringing these two companies together we think about bringing two large groups of employees, 3,700 people in Emera, 3,700 people in TECO Energy. And we see that as much much greater than the sum of the parts.

As well when Emera looks at running public utilities in communities we feel it's very, very important to have local presence on the boards that are responsible for those companies. So we will be creating operating boards both in Florida and in New Mexico. And those operating boards will have local directors on those boards to ensure that those utilities stay connected to the communities that they serve. That's a very important part of our commitment to the communities where we will serve a electricity and gas.

And then last but certainly not least we are creating a deep commitment here to the existing employees of TECO Energy. We want to retain the entire management team and employees that exist here today and we think that that is a huge synergy for our business.

Now Emera is a strongly growing Company today. And as a strongly growing Company we need talent and we see the talent that exists in TECO Energy as being an important part of our future. So we certainly embrace that and make a deep commitment to those employees.

If we turn to page 23, it gives you a bit of a sense of how the timeline will unfold. Obviously we've made the announcement today and there will -- we will proceed to initiate regulatory filings.

We'll be filing certainly in New Mexico and with some US federal agencies including the FERC and others. We expect that that process including the filing of the proxy that will be filed for the shareholder vote to take between now and the middle of 2016 to be able to close this transaction.

So we are building a North American energy leaders here together. As I said earlier this is really the merger of two very strong businesses into a much stronger business, a business that has the capacity to service customers in better ways than it has and continue to service customers in the best way possible.

This transaction is significantly accretive to ongoing Emera EPS. It grows our regulated earnings and cash flows and provides tremendous support to our dividend as we go forward. So when we think about this transaction and we think about its aspects this is a transaction that grows our business, strengthens our business and allows us to continue to grow in an even greater way into the future.

And one of those ways is that it brings into Emera a regulatory platform including natural gas distribution, something that we've been seeking for a bit of time and something we will be able to move forward with as part of the transaction with TECO. It increases our scale, improves our credit profile and I think drives benefit for customers, employees, communities and shareholders. And so with that I believe we have a very, very successful transaction here, one that will grow a strong Company, a strong investment and one that I think we'll all be very proud of.

With that I'd just like to take a moment to thank John and his team for the professional way that they presented their business and gone through the process that they've gone through. The team has second to none. It has been a great pleasure to work with you through this process and as we know there's lots more to come, lots more working together and we look forward to that and that the success we've had today and in the future.

So with that, Scott, I think we will open things up for questions. And we'd be happy to take the questions from the line.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ali Agha, SunTrust.

Ali Agha - *SunTrust Robinson Humphrey - Analyst*

Thank you. Just some logistical questions. One is does TECO have the right to look for other alternatives like a go-shop period if you will or are they pretty much locked into this transaction?

Chris Huskilson - *Emera Inc - President & CEO*

John do you want to --

John Ramil - *TECO Energy - President & CEO*

Yes. Ali, how are you doing?

Ali Agha - *SunTrust Robinson Humphrey - Analyst*

Hey, John. Congrats.

John Ramil - *TECO Energy - President & CEO*

We usually have these conversations in the morning. Thank you.

You know, we are locked into this transaction, committed and emotionally. But at the same time we cannot go out and solicit. If an offer comes in we can look at it and consider it but we can't go out and solicit.

Ali Agha - *SunTrust Robinson Humphrey - Analyst*

Okay. And also related to that, what are the breakup fees associated with this transaction?

John Ramil - *TECO Energy - President & CEO*

I think they are very much in the typical market range. I think the buyers breakup is 5% if I remember correctly and the sellers is --

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Chris Huskilson - *Emera Inc - President & CEO*

3.25%

John Ramil - *TECO Energy - President & CEO*

3.25% yes. 3.25%.

Ali Agha - *SunTrust Robinson Humphrey - Analyst*

And last question does the Florida commission not need to officially approve this transaction?

John Ramil - *TECO Energy - President & CEO*

There's no requirement in the state of Florida for the commission to approve this transaction.

Chris Huskilson - *Emera Inc - President & CEO*

And I would just note we've taken the opportunity, though, today to make calls to Florida commissioners and to other folks around the state just to make sure that people were well-informed. And we're committed to keeping the Florida commission well-informed as we go through this process.

Ali Agha - *SunTrust Robinson Humphrey - Analyst*

Thank you.

Operator

Travis Miller, Morningstar.

Travis Miller - *Morningstar - Analyst*

Good afternoon. Thank you. Congratulations to John and his team there.

I wonder about the New Mexico approval. What did you guys learn from the New Mexico Gas approval process that might be either hurdles or easy parts or things you could give it to ratepayers without changing the deal too much? Just generally, what did you learn that you think might come up again as you go through that process?

John Ramil - *TECO Energy - President & CEO*

Travis a good question. As we -- one of the things that we had to do in the New Mexico is we had to introduce people to who TECO Energy was and what we're about and our history and that was all a good story.

So once we got through that, that was quite helpful. And I think Chris and his team from Emera will do that quite well.

The other if you remember that company, a relatively small utility company, totally self-contained doing all of their support services to the business while we were setting up the centralized service company to efficiently serve all three utilities. So there was not a lot but there is some job eliminations in that state, so that was an area of concern.

I think given the way Chris and his team are approaching it we've already paved that road and that has happened and in fact it's happened quite well. We're well into that process and have I think fewer jobs that you can count on one hand where we've actually had to let people go. It's been handled through self nominations and attrition.

So I think we've done a few -- we've kind of been through the process once. And we have some ideas on how to make sure that we can make it a little bit easier on the regulators this time around and get through the process.

Chris Huskilson - *Emera Inc - President & CEO*

And John you know I just might add a couple of things. First of all the stipulations that are there from the last transaction, certainly those are stipulations that we'll respect in a very solid way. We're committed to those stipulations and moving forward that way.

We're also committed to making an application and making sure that we introduce Emera properly to the state of New Mexico, to the regulators and to government officials there. And in fact John I think we're taking a trip a little later next week where we will be introducing ourselves in that market and looking forward to building relationships there and ultimately to serving customers in that market. We see that business as a great investment that TECO has made and an opportunity for the future and so we're very much looking forward to being in New Mexico.

Travis Miller - *Morningstar - Analyst*

Okay, great. And then one of the one on the coal. If you are not able to complete a coal transaction by the time you get all the regulatory approvals on the regulated utility side what happens?

What's the thinking there? Is there anything structurally in the deal that would happen if you're not able to sell the coal unit?

Chris Huskilson - *Emera Inc - President & CEO*

Well I think we're quite confident that can happen and John probably can fill you in on some of the details. But we're very confident that we'll be and a good place there.

John Ramil - *TECO Energy - President & CEO*

And the transaction will move forward. But as Chris said we believe that it will close if not with the current buyer that we've been talking about with someone else and perhaps in other fashions by selling it in pieces.

Travis Miller - *Morningstar - Analyst*

Okay. Is there anything in the actual deal terms that has to do with that? In terms of selling the coal business?

Chris Huskilson - *Emera Inc - President & CEO*

Really just that we'll continue to proceed with the process that's ongoing right now.

John Ramil - *TECO Energy - President & CEO*

Right proceed with the process and we'll keep Chris and his team informed as to what's going on.

Travis Miller - *Morningstar - Analyst*

Great. Thanks so much. I appreciate it.

Operator

Paul Patterson, Glenrock.

Paul Patterson - *Glenrock Associates - Analyst*

Hi, how are you doing? I wanted to ask you about the permanent capital structure that you guys were thinking in terms of acquiring the equity of TECO. Could you give us a little bit more flavor about what we should think about there?

Scott Balfour - *Emera Inc - EVP & CFO*

Yes, it's Scott Balfour speaking. That's something that we'll work through in time. We've obviously got a capital structure in mind but as we work through the regulatory process, the shareholder approval process really the best I can point to at this time is to say that our objective is and we've spent a fair amount of time working this through obviously with an expectation that the credit rating impacts of this would be neutral and that pro forma close of the transaction with all the permanent financing in place that we'd see the existing rating profiles that Emera and TECO and its rated affiliates have today.

Paul Patterson - *Glenrock Associates - Analyst*

Okay. But are you guys planning on issuing any equity to do the transaction? Or how should we think about the transaction other than the commitment that you have in terms of the bridge?

Scott Balfour - *Emera Inc - EVP & CFO*

Yes, that's something that we'll provide some further clarity as time goes by. But absolutely we do intend to use a combination of common equity, preferred equity is a fairly common structure that's utilized in Canada and that too will form part of our capital structure and of course debt. And one of the advantages that we have in this transaction is that Emera today enjoys a pretty strong balance sheet relative to its historical capital structure.

And so we do have some leverage capacity ourselves today and that helps to facilitate this transaction itself. But as I say our real focus is making sure that we end up with the same similar rating profile that Tycho and Emera both have today with this financing in place and implemented over the next 9 or 12 months through the regulatory approval process.

Chris Huskilson - *Emera Inc - President & CEO*

Yes, and Scott I think it's important to reinforce that we've designed this financing so that it actually has an outcome from a ratings perspective that actually works and we see the opportunity there to do that. But it also results in a significantly accretive transaction.

Paul Patterson - *Glenrock Associates - Analyst*

Okay. And then with respect to the acquisition itself and the multiples that we're looking at, when you look at the price to tangible book or goodwill sort of back of the envelope is there anything we should think about in terms of writing up the assets or should we just basically look at the tangible book value of TECO and make our estimations as to what the goodwill or the price to tangible book value would be based on those numbers? In other words is going to be any change in accounting that we should think about in terms of a writeup of assets that's going to be there? Otherwise should we just think hey, if we just take a look at the numbers which we can do that the price paid minus tangible book value would pretty much be where we are in terms of goodwill or price to tangible book?

Scott Balfour - *Emera Inc - EVP & CFO*

I guess I provide two points of context. First which is first of all Emera is a US GAAP based reporter. We do report in US GAAP, so we operate under the same accounting principles as does TECO.

And the sort of detailed accounting work for this of course will carry on through the process as we get closer to closing. And yes when you go through an acquisition you have to go through and look at fair value.

But recognizing that TECO's assets are all rate base assets I think your assumption would be pretty reasonable that the rate base value that is currently ascribed to them would likely carry through this process. So I don't think you would reasonably expect there to be any material writeup in value as we go through and finalize the purchase equation and all those things through the process.

Paul Patterson - *Glenrock Associates - Analyst*

Excellent. Congratulations, guys.

Thank you very much. Have a good weekend.

Operator

Linda Ezergailis.

Linda Ezergailis - *TD Securities - Analyst*

Thank you. Congratulations on this transaction. A few more questions around your accretion.

You mentioned it's accretive to EPS. I would assume it's also accretive to cash flows from operations per share some sort of free cash flow per share metric. Can you confirm that and indicate maybe how much more it might be accretive to cash flows?

Scott Balfour - *Emera Inc - EVP & CFO*

I can help you with the first part, less so with the second. So I can affirm that the transaction is also accretive on a cash flow basis. And certainly one of the elements of this transaction as Chris referenced is TECO does have a significant pool of tax loss carryforwards in place and AMT credits.

So that provides a significant cash, tax shield generating incremental cash through the next period. That amplifies of course that cash accretion in the early years. But yes, certainly, it is at least as accretive on a cash basis as it is on an earnings basis within the profile that Chris referenced.

Linda Ezergailis - *TD Securities - Analyst*

Okay. Now on an income basis are there some tax synergies as well?

Scott Balfour - *Emera Inc - EVP & CFO*

I'm sorry, I couldn't quite hear you, Linda. One more time?

Linda Ezergailis - *TD Securities - Analyst*

On an income basis then there are some tax synergies as well or are there any implied synergies I guess more broadly in your accretion estimates?

Scott Balfour - *Emera Inc - EVP & CFO*

Yes, I'd say for us this transaction and the financial merits of this transaction really are centered on synergies in the traditional sense. I think the synergies will come from what the team can do together to drive future growth and additional earnings. But there's no material cost synergies that we've assumed within our models that drive the kind of financial metrics that Chris referenced.

Chris Huskilson - *Emera Inc - President & CEO*

And I think Linda it's important to note when you look at what these two businesses are doing Emera has some very large projects on the go right now, things like Maritime Link and others and some very large expectations relative to supplying energy into the Northeast. And the opportunity is there.

We just had the New England governors and the Eastern Canadian premiers together in Newfoundland last week or actually early this week. And in fact they were talking about moving 20-plus kilowatt hours of energy into that market. So there's the kind of opportunity we're looking at on that front.

When you come to what's going on with TECO, some very large projects on the redevelopment of the Polk facility, the work that will happen as the coal plants continue to be reduced in emissions. There are tremendous projects and opportunities there.

So when we see putting these two workforces together, these two great groups of people together we see turning that into more and being able to source the talent necessary to do some of these larger things that we're looking to do. So we're very excited about that kind of synergy. It is a growth synergy that we're focused on.

Linda Ezergailis - *TD Securities - Analyst*

Okay. That's helpful.

Now just a follow-on to that, you've got already significant growth in Canada, you've got potential good significant growth in New England as well. Do you have a notional geographic mix that you are thinking where you will be in 5 to 10 years and where you want to be, i.e., potentially bolstering up your Canadian part of the mix?

Chris Huskilson - *Emera Inc - President & CEO*

Well so Linda, I mean I think our objective has always been to diversify this business. And as you know it came from an extremely concentrated business and the notional objective that we set for ourselves is to have no single investment greater than about 35%.

If you look at the pie chart that exists on page 19 you'll see that we're actually achieving that in a very good way. Even TECO, Tampa Electric, I'm sorry, which is a very large concentrated business turns out to be about 38% of this business. So right in around the targets that we've set for ourselves.

So that's a little more of the way we're looking at this than being focused on a geography. So and we've said this many, many times as we've looked at our business we look for businesses and transactions where we can do more around those businesses than just the existing business.

So when we look at a market like Florida, we look at a market like New Mexico, we see those opportunities, those linkages and adjacencies. So that is what attracts us to this and so that is what will always attract us. So when we look for another business in the future we'll look for that.

And so other than that 35% number that I would quote we probably wouldn't put any other parameters on that. We're not likely at this point other than the Caribbean to leave North America. I would say that to you but I don't see us being focused on geography per se.

We're focused on finding good businesses with talented people that can grow. That's what we're really focused on and I think we found that. This is a bull's-eye.

This is the perfect match for us. And we will focus for the next little while on two big things: closing this transaction and building Maritime Link and setting ourselves up to supply New England. Those will be the things that we will be focused on over the next little while and then we will move on.

Linda Ezergailis - *TD Securities - Analyst*

That's very helpful. Just one final cleanup question.

You pay your dividends in Canadian dollars. Can you comment on how you're thinking about potentially hedging both this transaction cost and then prospectively your US dollar exposure or not at all?

Scott Balfour - *Emera Inc - EVP & CFO*

Linda, certainly a significant part of this in terms of that hedging strategy is thinking about the financing strategy and the execution of that financing strategy, whether it's originated in the US or in Canada but largely focusing on raising those funds in US dollars. So that in itself will provide a fairly significant natural mitigation.

And today of course notwithstanding the fact that we've got a significant portion of our earnings and assets in the US our US-based debt is actually very modest. So we've got some room to do that and frankly we're probably a little overdue in building a US debt profile on our balance sheet.

So that really is the first and primary focus. And obviously as we work through over the next nine months or so to closing and following that we'll continue to look at risk mitigation strategies as we always do around how to manage currency exposures and the rest. But for now most of it's really centered on the financing strategy execution.

Linda Ezergailis - *TD Securities - Analyst*

Okay, great. Thank you.

Operator

Ben Pham, BMO Capital Markets.

Ben Pham - *BMO Capital Markets - Analyst*

Thanks and good evening everybody. I just want to also congratulate you on the deal.

And I wanted to ask about the coal exposure in New Mexico and Florida, just the percentage and where that's going in I guess 2017 and how the Clean Power Act impacts? Just if you need some sort of replacement cycle at some point in the future?

Chris Huskilson - *Emera Inc - President & CEO*

So I think that's and obviously John can chime in here because he's designed all this, but I think TECO Energy has really set itself up very, very well for the changes that have happened on the clean power side. They were early adopters. They were in with the EPA, reducing emissions in their power plants and they've been doing that for a long time.

So when you look at the way that the business is structured especially with the Polk investment coming on you're going to see a tremendous amount of flexibility sitting in this business. And that flexibility can turn into the ability to create affordable energy for customers and also the ability to ultimately over time, so with Peoples Gas as an example, to serve more and more of the coal transition needs that exist in the state.

So this business is extremely well set up, both to comply with the Clean Energy Act and also to supply its customers in an affordable way and to help the state supply other customers in affordable ways. So that's one of the things that we're quite excited about, as you can tell I'm quite excited about this.

And you know that's one of the things when we looked at what Tampa, TECO Energy was doing that actually caused us to say boy, there's something here. There really is something here because they've laid the groundwork for a tremendous future. And so that's something that we recognize really quickly when we started talking to them.

And I don't know, John, if there's anything you'd like to add to that.

John Ramil - *TECO Energy - President & CEO*

Chris, you're a quick study. That was a really good answer.

But just in New Mexico people moving away from coal is actually an upside because it provides us opportunities to extend pipelines and infrastructure to power plants. And Chris is absolutely right, with Tampa Electric with the Polk expansion and some other things that we're doing we will be positioned to generate as much as 80% of our electricity needs from natural gas. And when you couple that with some of the renewable programs that we're just starting to get off the ground we think we're in a very, very flexible situation to handle a broad array of different requirements.

Chris Huskilson - *Emera Inc - President & CEO*

And just one more thing I'd add. So when I think about Peoples Gas I think about the gas company of Florida and when I think about New Mexico Gas I think about the gas company of New Mexico. And those in and of themselves with the transition that's happening right now over the higher carbon fossil fuels to lower carbon fossil fuels is a tremendous opportunity.

Ben Pham - *BMO Capital Markets - Analyst*

Okay. Thanks for that.

And I wanted to also go back to the accretion expectations. And just with the first year the commentary on that, when you talk about accretion in the first year are you assuming full dilution on the common equity?

Chris Huskilson - *Emera Inc - President & CEO*

Help me a little more what you mean by full dilution, Ben.

Ben Pham - *BMO Capital Markets - Analyst*

Are you assuming you're issuing all the equity you need?

Chris Huskilson - *Emera Inc - President & CEO*

Yes. This is pro forma closing of the transaction, that's right.

Ben Pham - *BMO Capital Markets - Analyst*

Okay, well that's it for me. Thanks.

Chris Huskilson - *Emera Inc - President & CEO*

For the first full year clearly transaction costs will go into probably a stub year in 2016 but first full year.

Operator

Paul Lechem, CIBC.

Paul Lechem - *CIBC World Markets - Analyst*

Thank you, good evening. Just on the permanent financing again, just trying to understand the timing of all this. So are you expecting to have all permanent financing in place before closing of the transaction?

Scott Balfour - *Emera Inc - EVP & CFO*

That's our plan.

Paul Lechem - *CIBC World Markets - Analyst*

Including all the equity that needs to be raised?

Scott Balfour - *Emera Inc - EVP & CFO*

That's right.

Paul Lechem - *CIBC World Markets - Analyst*

Okay, fair enough. And then just so I understand the capacity once you take on TECO the capacity to take on other major projects and other major initiatives that you have underway in New England, if some of those come to fruition on the transmission side would you then do you feel you still have capacity to execute on those transactions, on those initiatives?

Chris Huskilson - *Emera Inc - President & CEO*

I think being engaged with TECO actually adds to our capacity, so as I said earlier in my remarks, we are growing quickly. The capacity, the human capacity of our organization is something we're seeking to grow. And I think with our merger with TECO Energy we do grow that human capacity.

So I think that becomes opportunity for us to do more things like the one you mentioned. And I think it's opportunity for employees across the business through cross-fertilization and other possibilities to take on new and exciting roles and I think that that's the kind of thing that we will hope will happen. We obviously first and foremost have to retain the capability of the teams that exist here and then to challenge them to new opportunities.

Paul Lechem - *CIBC World Markets - Analyst*

Okay. Just trying to understand when you look at the investment opportunities across the extended platform then how do you think about the returns, the different returns you're getting in different parts of the business getting over 10% in TECO versus 9% and lower in the Maritimes. Does that sway your views on where you'd like to allocate capital, how you allocate capital going forward?

Chris Huskilson - *Emera Inc - President & CEO*

So I mean and Scott can chime into this as well but I mean I think first and foremost all those businesses are solid stand-alone businesses and they can attract capital by their own nature. And so I think that that's the first tenet that I would put forward.

We have not seen difficulty in attracting capital to our business in any of its various dimensions. And so as long as we continue to be able to attract capital and I think this transaction makes it easier, not harder then we'll continue to invest as those entities need it. And as I said I think this is an enhanced capability to do that.

So I don't know, Scott, if there's anything you can throw into --

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Scott Balfour - *Emera Inc - EVP & CFO*

I think you addressed it perfectly. I think the only thing that I would add is of course whenever we look at new capital investment we're always working through a lens to ensure that we've got the discipline around that investment to ensure that it's the right thing for ratepayers and customers, the right thing for shareholders.

That's always a measure but otherwise I think Chris said it right. I think that those businesses are able to secure the capital they need to grow and we continue to support that.

Chris Huskilson - *Emera Inc - President & CEO*

I mean, just if you take an example for a second, Paul. If you look at the cost of capital with Maritime Link would exhibit right now with a 70/30 debt equity structure and 925 return on the equity side, that is a very low cost structure for the customers in that market.

That's creating affordable energy for that market and it can attract the capital. So I look at that as being right dead center of where we'd want to be.

Paul Lechem - *CIBC World Markets - Analyst*

Okay, thanks. Last quick question, I think I heard Scott you say you would consider raising some of the press and debt in US dollars. I was just wondering are you considering also a US listing for the stock?

Scott Balfour - *Emera Inc - EVP & CFO*

I wouldn't say it's in our plans right now Paul. I think we're fortunate we've got our sector and Emera has access to the Canadian capital markets certainly on the equity capital markets side that has supported us well over the years.

Of course as we look at debt placement of course refocused on both US and Canada. But right now as we look at it the capital needs that we have I think can be adequately addressed within the Canadian capital market. If at some point in time that lens changes and it looks like a US listing would be valuable from a cost or access to capital perspective of course we'll look at it but that wouldn't be in our short-term planning today.

Paul Lechem - *CIBC World Markets - Analyst*

Okay, thanks guys and congratulations.

Operator

Robert Kwan, RBC Capital Markets.

THOMSON REUTERS

Robert Kwan - *RBC Capital Markets - Analyst*

Great, thank you. I'm just wondering if I can go down some of the financing assumptions you have just underlying the accretion.

I know it doesn't sound like you want to get into numbers, Scott, but it sounds like between the available balance sheet capacity you have and what you talk about as an improving credit profile, risk profile there's going to be at least a material amount of double leverage on the deal.

Scott Balfour - *Emera Inc - EVP & CFO*

Well I'm not sure I'd be thinking of it as double leverage. I think we will look to continue to finance Emera and its affiliates, looking at the appropriate capital structure for its rated and unrated affiliates, both existing and those of TECO to drive the right credit profile and cost of capital that suits that business. And of course do the same at the holdco level and look at the capital structure that is there.

Yes I think you can talk about double lever as a component of the capital structure. But we're not thinking about it any differently than we think about how we finance the business today.

Chris Huskilson - *Emera Inc - President & CEO*

So, Robert if you look at the way we have targeted our capital structure over time we've always targeted 45% equity which is a combination of common and pref and 55% debt. That's our target capital structure.

So that is still our target capital structure and that's what we will work toward. What you saw over the past three years was we lifted the equity structure up quite a bit and reduced our debt substantially as a result of the fact that we had reduced our regulated earnings. This transaction, again why it's a bull's-eye for us is that this transaction moves us up to our regulated earnings target right away.

So that allows us to put our capital structure back to where it came from which is targeting the 45% to 55%. And that's really what we're focused on continuing to do.

Now to your point it might take a little while to get to that full point but that's what our target is. You can look at it that way and continue looking at it that way. Scott is that --

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Robert Kwan - *RBC Capital Markets - Analyst*

Sorry, go ahead.

Chris Huskilson - *Emera Inc - President & CEO*

Now I just -- and we've been saying that for the past seven or eight years that that's our target capital structure. I think that is the right capital structure for a business with this much regulated earnings.

Robert Kwan - *RBC Capital Markets - Analyst*

Got it. And have you run these numbers by the rating agencies yet?

Scott Balfour - *Emera Inc - EVP & CFO*

So we spent a lot of time obviously thinking about rating output. We have a pretty good understanding as to how the metrics work and so we've applied our lens against those metrics to have a confidence level through that work as to the ratings outcome that we can expect.

Robert Kwan - *RBC Capital Markets - Analyst*

Okay. Can you just talk about what your FX rate assumption is?

Scott Balfour - *Emera Inc - EVP & CFO*

What really is important as you think about it is yes the math is sensitive to what FX does between now and closing and the math is sensitive to what FX does post-closing. But really I think the relevant assumption is that we're within a relatively stable FX environment. And so we've essentially modeled the FX environment that we see today and the model is based within that, obviously we've looked at it on a number of different levels but generally the model has been based upon a stable currency environment.

Chris Huskilson - *Emera Inc - President & CEO*

Yes, so Robert I think the only qualification that we're putting on the accretion numbers that we're talking about are stable FX environment.

Robert Kwan - *RBC Capital Markets - Analyst*

Got it. And then in terms of timing are there any key regulatory and/or shareholder milestones approval milestones that you want to see before you move to finance the transaction? Or do you think you could be out in front of that to some degree?

Scott Balfour - *Emera Inc - EVP & CFO*

I think that's something we'll assess as we go Robert. And as you point out there are some milestones to achieve towards closing on the transaction through TECO's shareholder approvals and various regulatory approvals. So we will continue to look at the progress against those milestones and measure that against the capital market conditions in order to come up with what we see is the ideal execution strategy.

Chris Huskilson - *Emera Inc - President & CEO*

And Robert certainly TECO Energy is committed to moving through the shareholder approval at pace and I think that's exactly what we intend to do. I don't know, John --

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John Ramil - *TECO Energy - President & CEO*

Clearly. Absolutely right.

Chris Huskilson - *Emera Inc - President & CEO*

Thanks, John.

Robert Kwan - *RBC Capital Markets - Analyst*

And then just last question on financing. Obviously they've got to make their own decision but could Algonquin play a role in all of this?

Chris Huskilson - *Emera Inc - President & CEO*

No, we don't expect so.

Robert Kwan - *RBC Capital Markets - Analyst*

Okay. Just as we look at the outlook on the fuel to asset strategy you've been quite successful in your jurisdictions. I know Chris you talked a lot about how you see that thing up. Can you just talk about, though, the amount of fuel that's in the rates within the TECO utility and the economics of renewables there and how that interplay might work as it relates to the all-in customer bill?

Chris Huskilson - *Emera Inc - President & CEO*

Well I think and obviously would welcome John to chime in on this one. But I think first of all the short-term approach within Tampa Electric at least is the gas work that they're doing. They are being able to ultimately displace coal both on the one hand have the capacity there for reliability purposes but on the other hand be able to reduce coal consumption by putting more and more natural gas into this.

And when you look at the cost of natural gas in this market that's a very competitive thing to do. That creates affordable energy for the customers and that's exactly what this business should be doing.

As you see, though, they are starting to introduce some solar projects and other opportunities. And overtime I'm sure that that will happen but it's going to be a natural gas world for some time to come I think. And John I don't know if there's anything --

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John Ramil - *TECO Energy - President & CEO*

I 100% agree with that. And I talked about the flexibility earlier with natural gas and that's what the Polk expansion has really positioned us to have moving ahead.

Chris Huskilson - *Emera Inc - President & CEO*

It's a tremendously flexible generation fleet that the business has today and that's a great opportunity.

Robert Kwan - *RBC Capital Markets - Analyst*

That's great. Thank you very much and congratulations on the announcement of the transaction.

Operator

Linda Ezergailis, TD Securities.

Linda Ezergailis - *TD Securities - Analyst*

Thank you. Just to follow up to Robert's question about permanent financing and how Algonquin might play a role. Just looking at your portfolio of businesses and assets, are there any assets that you would consider to be less core or noncore or businesses that you might consider selling to help finance the equity requirements for this transaction?

Chris Huskilson - *Emera Inc - President & CEO*

I think, Linda, we certainly haven't made any decisions in that area and we constantly look at our asset base. You saw our transaction with First Wind earlier this year. We constantly look at our asset base but we haven't made any decisions and we don't necessarily see (technical difficulty)

Scott Balfour - *Emera Inc - EVP & CFO*

The other thing I would add, Linda is we do continually not only look at the portfolio from that perspective but also just in terms of ensuring that we've got the best capital efficiency within the businesses that we have. And so there's opportunities unrelated to this transaction to continue to drive that capital efficiency within the structure and the various businesses that we have that we expect will continue to provide a significant source of cash flow moving forward.

Chris Huskilson - *Emera Inc - President & CEO*

And I think just a simple example of that, so Scott that's a really important point, a simple example of that is what's going on in New England right now in the capital markets is making some of our New England assets more and more valuable. And so that's allowing us to look at how those get financed is one example.

Linda Ezergailis - *TD Securities - Analyst*

Okay, thank you.

Operator

You have no further questions at this time. I turn the call back over to the presenters.

Chris Huskilson - *Emera Inc - President & CEO*

First of all as we've all said earlier we're very excited about this transaction. We're excited about the relationship.

We've already formed a think a pretty good bond between ourselves and the people at TECO Energy. And so I really, really forward to the future with TECO Energy and growing our business for our customers and our shareholders.

So thank you all very much for taking the time late on a Friday before a long weekend. We definitely apologize for that part of this transaction but I don't think we apologize for much else.

So thank you all for taking that time and we wish you all a great holiday weekend. Thank you.

Operator

This concludes today's conference call. You may now disconnect.