

Merger & Sale Considerations & Mechanics

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Agenda

- ◉ Merger or Sale Considerations
- ◉ Seller Issues
- ◉ Merger versus Sale
- ◉ Mechanics
- ◉ Transactions Completed or Proposed
- ◉ Factors in Flux
- ◉ Q & A

Considerations

Why Merge or Sell:

- Opportunity to monetize LDC value;
- Loss of rate setting ability;
- Revenue instability from efficiency “stretch factors”;
- Opportunity to upgrade utility services;
- Opportunity to diversify investment;
- Opportunity to fund other infrastructure; and
- Transition of senior LDC management.

Seller Issues

1. What does seller want: Cash or Investment?
2. Who are the most likely buyers?
3. Consider other stakeholders?
4. What are the seller's objectives?
 - Maximum price?
 - Maintain jobs?
 - Reduce customer rates?
 - Retain ownership interest?

Merger versus Sale

- ◉ Seller retains interest in larger more diversified LDC at higher value;
- ◉ Seller maintains annual dividend flow;
- ◉ Seller maintains input into utility development;
- ◉ In Merger risks are retained however
- ◉ Merger likely to create financially stronger LDC.

Achieving seller's objectives

:

1. Prioritize objectives;
2. Attract synergistic bidders and Hydro One;
3. Auction Process, forget past rivalries;
4. Negotiations with “Best” bidder(s); and
5. Keep alternative buyers in play.

Valuation

Fair Market Value is based on a combination of:

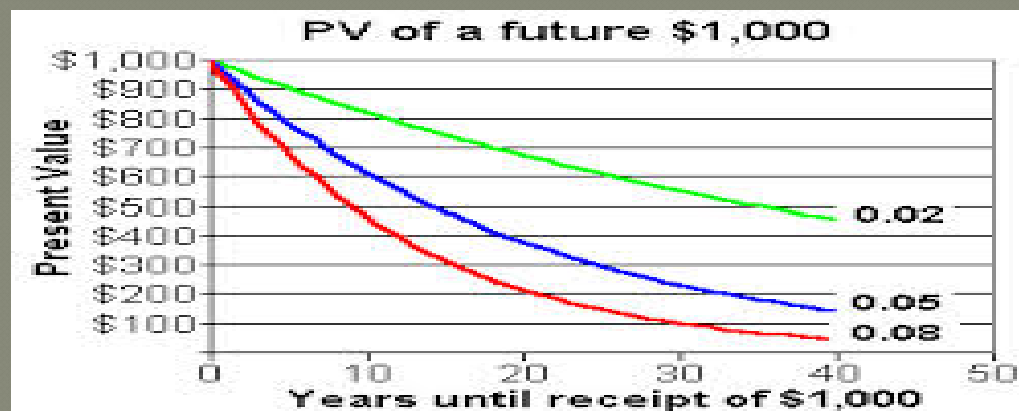
- Present value of expected future cash flow;
- Price/Book Value ratios of other sale transactions; and
- Appropriate utility price/earnings ratio times expected earnings.

Value drivers: rate base growth, expected ROE, potential cost savings.

Mechanics

1. **Present value** is a future amount of money discounted to reflect its current value;
2. The present value is always less than future value because money has interest earning potential;
3. A dollar tomorrow is worth less than a dollar today.

Mechanics



Valuation Considerations

- Costs of capital at 50 year lows;
- Private sector - limited participation;
- Purchasers are willing to pay premium prices (especially Hydro One);
- Limited OEB requirement to share savings with customers;.

Other Valuation Considerations

- Affiliate operations (ie)
- (becoming a larger component of overall business)
- Non-regulated operations and
- Redundant assets (may have limited or zero value)
- Excess working **capital** (may be room for a special dividend)

Transactions (Completed and Proposed)

Transaction Date	Utility Acquired	Purchaser	Enterprise price/book
Sep-05	Gravenhurst	Veridian	1.56
Sep-05	Aurora	PowerStream	1.29
Sep-05	West Nipissing	Sudbury	1.28
Jan-09	ELK Energy	Town of Essex	1.36
Jan-12	COLLUS	PowerStream	1.56
Mar-13	Norfolk	Hydro One	1.63
Dec-13	Haldimand	Hydro One	1.57
Overall Avg			1.46

Recent Action LDC Sector

Date	Entity	Acquiror/Merger Partner	Status
2011/2012	COLLUS	PowerStream	Sale of 50% interest
2013/2014	Norfolk	HydroOne	MAAD Application
2013	Centre Wellington	Orangeville	Status Quo
2013	Orangeville	Merger or Sale	Status Quo
2013	Haldimand	HydroOne	Pending
2013	Woodstock	HydroOne	Under review
2013	Midland	HydroOne	Under review
2013	Parry Sound	Lakeland	Announced
2014	Brant County	Sale process	Underway
2014	Essex Power	Entegrus/Town of Amherstburg	Offer made for minority stake

Factors in Flux

1. Private Sector Participation;
2. Regulatory Requirements;
3. Regional Consolidation; and
4. Strategy of Hydro One.