

FORTIS, INC. (TSX/NYSE: FTS)



(as at May 31, 2020)

Business Description:

Fortis, Inc. (TSX/NYSE: FTS) is a well-diversified leader in the North American regulated electric and gas utility industry, with revenue of \$8.8 billion and total assets of \$53 billion as at December 31, 2019. Regulated utilities account for 99% of the company's assets with the remainder primarily attributable to nonregulated energy infrastructure. The company's 9,000 employees serve 3.3 million utility customers in five Canadian provinces, nine U.S. states and three Caribbean countries. As at December 31, 2019, 66% of the company's assets were located outside Canada and 60% of 2019 revenue was derived from foreign operations. Fortis is principally an energy delivery company, with 93% of its assets related to transmission and distribution. The business is characterized by low-risk, stable and predictable earnings and cash flows.

Investment Thesis:

- **North American Leader:** Fortis is a leader in North American regulated gas and electric utility markets. It serves customers in 17 jurisdictions throughout Canada, the United States and the Caribbean.
- **Investment-Grade Credit:** Fortis' parent company, along with all large operating subsidiaries, are rated investment grade. Fortis plans to maintain investment-grade ratings at all its subsidiaries into the future.
- **Dividend Track Record:** Fortis has a remarkable track record of returning capital to shareholders. The company has consecutively raised dividends for over 46 years and plans to continue increasing dividends in the future.
- **High Quality Portfolio:** Regulated utilities account for 99% of the company's assets. Fortis serves over 3 million customers via 10 utility operations across Canada, the U.S. and the Caribbean. Fortis' portfolio includes regulated electric, regulated gas, regulated electric transmission, long-term contracted hydro generation and natural gas storage facilities. 93% of the company's assets relate to electricity poles, wires and natural gas lines that enable a cleaner energy future.
- **Subsidiary Autonomy Drives Performance:** Fortis has a unique operating model with a small head office in St. John's, Newfoundland and Labrador and business units that operate on a substantially autonomous basis. Each utility has its own management team and most have a board of directors with a majority of independent members, which provides effective oversight within the broad parameters of Fortis policies and best practices. Subsidiary autonomy supports constructive relationships with regulators, policy makers, customers and communities. Fortis believes this model enhances accountability, opportunity and performance across the company's businesses,

and positions Fortis well for future investment opportunities.

Industry Drivers/Trends

- **Mergers and Acquisitions:** M&A has been a key growth pillar for Fortis, allowing it to become a large diversified player across multiple markets. Fortis is not just diversified by its earnings, but also by its assets (electric transmission and distribution, and gas distribution), which reduces its reliance on a single entity for growth. Each utility has different growth drivers, which means fluctuations in capital deployment are smoothed out across the entire asset portfolio.
- **Low-Carbon Transportation:** FortisBC owns and operates 19 charging stations and is focused on expanding its electric vehicle (EV) footprint within the province.
- **Path to Cleaner Energy:** Among Fortis' subsidiaries, many are focused on delivering cleaner energy. Clean energy projects include:
 - Fortis Ontario: 1,800 km Transmission Line Connecting First Nations to Cleaner Energy.
 - Caribbean Utilities: 20 megawatt (MW) Utility-Scale Battery Storage Project Approved.
 - UNS Energy Corporation: Tucson Electric Power (TEP) Approaching 2030 Renewable Energy Goal of 30% in 2021. Process Now Underway to Establish New Goals.
 - FortisBC: Target of 30% Reduction in Customer Greenhouse Gas (GHG) Emissions by 2030.

Major Competitors:

- Hydro One Limited, AltaGas Ltd., Just Energy Group, Inc., Enbridge Inc., Algonquin Power and Utilities Corp., Emera Inc.

Barriers to Entry:

- **High Capital Intensity:** New entrants would need to raise large sums of capital for infrastructure and assets that Fortis has established.
- **Experience Required:** New entrants competing with incumbents for contracts would find it difficult to do so without proper management experience.
- **Regulation:** The industry is highly regulated and it would be costly for new entrants to obtain the necessary regulatory approvals.

Officers & Directors:

Barry Perry, President & CEO; **Jocelyn Perry**, EVP and CFO; **David Hutchens**, COO and CEO of UNS Energy; **Nora Duke**, EVP of Sustainability; **James Laurito**, EVP of Business Development and CTO.

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Financial Summary:

Income Statement (CAD millions, years ended December 31st)

	2015	2016	2017	2018	2019
Revenue	6,757	6,838	8,301	8,390	8,783
COGS	2,591	2,341	2,361	2,495	2,520
Gross Profit	4,166	4,497	5,940	5,895	6,263
Net Profit	805	660	1,028	1,166	1,722
Earnings per Share	2.61	1.89	2.32	2.59	3.79

Balance Sheet

Total assets	28,804	47,904	47,822	53,051	53,404
Long-term debt	10,840	20,876	20,754	23,159	21,501
Total equity	9,880	14,597	15,003	16,533	18,531

Statement of Cash Flow

Cash from operations	1,673	1,884	2,756	2,604	2,663
Cash from investing	(1,368)	(6,891)	(3,025)	(3,252)	(2,768)
Cash from financing	(346)	5,050	339	644	154
Dividends paid	(309)	(388)	(484)	(525)	(561)

Key Ratios and Figures (%)

Gross profit margin	61.7%	65.8%	71.6%	70.3%	71.3%
Return on assets	2.8%	1.4%	2.1%	2.2%	3.2%
Long-term debt / equity	109.7%	143.0%	138.3%	140.1%	116.0%

Source: Fortis 2019 Annual Report

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