

08-Jun-2021

## CMS Energy Corp. (CMS)

**EnerBank USA Divestment Call** 

## CORPORATE PARTICIPANTS

#### Srikanth Maddipati

Vice President, Treasurer & Investor Relations, CMS Energy Corp.

#### Garrick J. Rochow

President, Chief Executive Officer & Director, CMS Energy Corp.

#### Rejji P. Hayes

Executive Vice President & Chief Financial Officer, CMS Energy Corp.

## **OTHER PARTICIPANTS**

#### **Jeremy Tonet**

Analyst, JPMorgan Securities LLC

#### Steve Fleishman

Analyst, Wolfe Research LLC

#### **Shahriar Pourreza**

Analyst, Guggenheim Partners

#### Stephen Calder Byrd

Analyst, Morgan Stanley & Co. LLC

#### Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

#### Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC

#### **Travis Miller**

Analyst, Morningstar, Inc. (Research)

#### **Andrew Weisel**

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#### **Paul Patterson**

Analyst, Glenrock Associates LLC

#### **Anthony Crowdell**

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#### Sophie Karp

Analyst, KeyBanc Capital Markets, Inc.

### MANAGEMENT DISCUSSION SECTION

**Operator**: Good morning, everyone, and welcome to the CMS Energy Call to Discuss the Strategic Sale of EnerBank. The news release issued earlier today and the presentation used in this webcast are available on CMS Energy's website in the Investor Relations section. This call is being recorded.

After the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time. [Operator Instructions] Just a reminder, there will be a rebroadcast of this conference call today, beginning at 2:00 PM Eastern Time, running through June 15. This presentation is also being webcast and is available on CMS Energy's website in the Investor Relations section.

At this time, I would like to turn the call over to Mr. Sri Maddipati, Vice President of Treasury and Investor Relations. Please go ahead.

#### **Srikanth Maddipati**

Vice President, Treasurer & Investor Relations, CMS Energy Corp.

Thank you, Rocco. Good morning, everyone, and thank you for joining us today. With me are Garrick Rochow, President and Chief Executive Officer of CMS Energy; and Rejji Hayes, Executive Vice President and Chief Financial Officer of CMS Energy.

This presentation contains forward-looking statements which are subject to risks and uncertainties. Please refer to our SEC filings for more information regarding the risks and other factors that could cause our actual results to differ materially. This presentation also includes non-GAAP measures. Reconciliations of these measures to the most directly comparable GAAP measures are included in the appendix and posted on our website.

Now, I'll turn the call over to Garrick.

#### Garrick J. Rochow

President, Chief Executive Officer & Director, CMS Energy Corp.

Thank you, Sri, and thank you, everyone, for joining us. We appreciate your interest and are excited to be with you today. I've had the opportunity to meet with many of you over the past seven months, and I'm hopeful you picked up on a couple of themes. One is commitment to excellence. It shows up in our culture, our work, world class co-worker engagement, and best-in-class customer service. It shows in our commitment to the CE Way, and industry-leading ESG performance. But ultimately, ultimately, it shows in our track record – our success today and in the future.

The second theme, preparing the company for the future, it shows up on our work on electric vehicles, our Integrated Resource Plan and, as I often refer to it, our leadership of the clean energy transformation. These themes continue to be balanced across our triple bottom line commitments to people, planet, and profit; and are critical. Simply put, we are focused on leading a world-class energy company. This commitment and our focus means simplifying and streamlining our portfolio of businesses on energy, our core area of strength and expertise. The way I see it, this is both strategic and straightforward.

Today, I am pleased to announce that after a very deliberate and robust strategic review and sale process, we have found a new home for EnerBank. Earlier today we announced that we entered an agreement with Regions



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Bank, a subsidiary of Regions Financial Corporation, to sell 100% of EnerBank for \$960 million or 3 times book equity.

I couldn't be more pleased with this outcome. Regions is one of the country's leading financial institutions and will enable EnerBank to continue to deliver for homeowners, contractors, and program sponsors. Since its inception EnerBank has been a valuable member of CMS Energy. I want to thank our EnerBank co-workers for their service. We wish them all the best as they continue to grow, after the close, under new ownership.

The proceeds from this transaction will fund key initiatives in our utility business related to safety, reliability, and our clean energy transformation by replacing our planned equity issuance needs over the next three years. The sale is subject to regulatory approvals, and we anticipate closing will likely occur in the fourth quarter of 2021.

As I shared earlier, the rationale for selling the bank is strategic and straightforward. We are focused on leading a world-class energy company. Moving out of a noncore business at an attractive valuation and investing in the core, in our utility, makes perfect sense. This move is straightforward and ensures that our leadership and attention are squarely focused on the energy business. The customer investments we are making provide safe, clean, affordable and reliable energy; and we know that you, our investors, value this approach.

And now, I'll hand the call over to Rejji.

#### Rejji P. Hayes

Executive Vice President & Chief Financial Officer, CMS Energy Corp.

Thank you, Garrick, and thank you, all, for joining us. First, I would like to echo Garrick's earlier remarks and thank the leadership team and employees, past and present, at EnerBank. Their operational and financial performance over the past several years has been nothing short of exceptional, and it's been an honor for me to serve as their board chair over the past three years.

Moving on to additional details associated with the transaction. As you can see on slide 6, we're moving EnerBank's expected EPS contribution of \$0.22 for 2021 in our current guidance to discontinued operations. You'll recall that we highlighted during our first quarter earnings call that the bank was well-positioned to deliver toward the high end of its earnings guidance range for the year, and that still aligns with our expectations. As such, our adjusted EPS from our continuing operations in 2021 is estimated at \$2.61 to \$2.65, and our consolidated adjusted EPS guidance is unchanged at \$2.83 to \$2.87 for the year.

Looking ahead, as you'll note on slide 7, we're introducing 2022 adjusted earnings guidance of \$2.85 to \$2.87 per share, which implies strong financial performance from continuing operations fueled by expected rate base growth in our existing five-year customer investment plan at the utility, reduced debt financings and the elimination of planned equity financings for the year.

Needless to say, we've also excluded any expected EnerBank EPS contribution for 2022 with the working assumption that the transaction will close in the fourth quarter of 2021. In other words, this efficient recycling of capital will enable us to deliver year-over-year consolidated EPS growth in 2022 and positions us well to continue our long-term growth trajectory of 6% to 8% per year.

Moving on to other key details related to the transaction. It's important to note that we have not historically relied on dividend distributions for EnerBank. As such, we intend to maintain the current dividend of \$1.74 per share, which we increased earlier this year. Longer-term, we plan to grow the dividend in line with earnings as we have in the past, with a targeted payout ratio of approximately 60%.



From a balance sheet perspective, we are confident that this transaction will maintain our solid investment-grade ratings and preserve our targeted mid-teens FFO to debt. Lastly, given the sale, we do not anticipate the need to issue any equity from 2022 through 2024, which provides more certainty in our ability to deliver consistent industry-leading financial performance over the long run.

Switching gears to our long-term financial planning, I'll remind everyone that we have ample customer investment opportunities at the utility. In fact, our \$25 billion 10-year capital plan excludes \$3 billion to \$4 billion of additional opportunities given affordability, workforce capacity and balance sheet constraints. The EnerBank transaction offers a potential catalyst to enable incremental customer investments at the utility.

As illustrated on slide 8, we foresee a potential path to fund key initiatives around safety, reliability and clean energy generation without the dilutive impact of new equity.

And with that, I'll hand it back to Garrick for some closing remarks before Q&A.

#### **Garrick J. Rochow**

President, Chief Executive Officer & Director, CMS Energy Corp.

Thanks, Rejji. So what does this all mean? It means that our simple investment thesis gets even simpler and more utility-focused. We continue to believe our model and track record of performance provides the most compelling story in the sector. We are a leader in the clean energy transformation, and this transaction will further enhance those efforts.

And combined with Michigan's constructive legislation and regulatory framework and our ability to create headroom by keeping customer bills affordable, we now have greater flexibility to invest more in infrastructure renewal.

By eliminating our equity needs over the near-term and investing in our core business, we strengthen and lengthen our runway to deliver 6% to 8% adjusted EPS growth. We believe this simple investment thesis will continue to deliver compelling total shareholder return for our investors for years to come.

With that, Rocco, please open up the lines for questions.

## **QUESTION AND ANSWER SECTION**

**Operator**: Thank you very much, Garrick. The question-and-answer session will be conducted electronically. [Operator Instructions] And today's first question comes from Jeremy Tonet with JPMorgan. Please go ahead.

Jeremy Tonet
Analyst, JPMorgan Securities LLC

Hi. Good morning.

Garrick J. Rochow
President, Chief Executive Officer & Director, CMS Energy Corp.

Good morning, Jeremy. How are you today?

Analyst, JPMorgan Securities LLC

Good, good. Thank you. Was just curious if you could give a little bit of background on how this all came together here? Was this something that you guys had been exploring for some point? Did they approach you? Did you approach them or – and just trying to see why now versus any point later or earlier to transact here?

Garrick J. Rochow

Jeremy Tonet

President, Chief Executive Officer & Director, CMS Energy Corp.

I'll offer some comments, and certainly invite Rejji to the conversation, too. And so, I would just offer this, what I shared earlier in my prepared remarks, was this deliberate approach, and a very strategic and straightforward approach. And so, again, we are focused on a world-class energy company. And what that means is, again, shared in the information; greater than 95% of our pro forma earnings come from a utility, a small part in enterprises. And this is what we're focused, and we went through an exhaustive type of decision-making process.

We shared some of that in previous one-on-one conversations as we thought about the bank. But let me be clear; this is a noncore asset, and we are moving from a noncore business into our core. We're doing that at an attractive valuation and investing in the utility. And, to me, it makes great sense. Rejji? You may want to offer more.

Rejji P. Hayes

Executive Vice President & Chief Financial Officer, CMS Energy Corp.

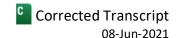
No, Garrick, I think you covered all the key aspects. And I will just reemphasize that it was a nice, broad process. This was not a source of reverse inquiry, but we thought that it was a very nice process with a good amount of strategic buyers. And we're pleased that we ended up being able to do a trade with Regions here.

**Jeremy Tonet** 

Analyst, JPMorgan Securities LLC

Got it. That's very helpful. And just want to be very clear as you think about 2022 and the dividend growth rate. So, it seems like the dividend would grow something less than 7% next year, given that EPS is growing less than 7% kind of on a normalized basis here when considering the consolidated versus the sold assets. And just wondering if 2022 is kind of a rebase for 7% growth, or am I thinking about that the wrong way? And I guess the

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other side of it is, if you're taking the equity off the table, would that lift kind of at the back end of your growth rate because you're not going to have that drag?

Rejji P. Hayes

Executive Vice President & Chief Financial Officer, CMS Energy Corp.

Α

Yeah, Jeremy. This is Rejji.

Garrick J. Rochow

President, Chief Executive Officer & Director, CMS Energy Corp.

Α

Yeah, please, Rejji. Walk through that.

Rejji P. Hayes

Executive Vice President & Chief Financial Officer, CMS Energy Corp.

Yeah, Jeremy. I can take that. Let me start by saying, well, first and foremost, we don't want to get ahead of our board with respect to any type of prospective guidance on dividend per share. But we feel very good about the fact that we did not need to change our existing dividend for 2021 at \$1.74 per share. And we did highlight that the payout ratio will be around 60%. And so, based on our guidance for 2022, you can extrapolate as you see fit. But, again, we don't want to be presumptuous here because we haven't offered a recommendation to our board at this point.

And with respect to the question around the lack of equity issuance. That certainly is helpful if you just think about the rate base growth that we have forecasted in our existing five-year capital plan. So, \$13-plus billion that we intend to execute on from 2021 through 2025. That equates to about over 7% rate base growth, and we're now taking out the vast majority of equity issuance from 2022 to 2024. So, clearly, that's going to help offset some of the earnings dilution associated with the bank.

And then, clearly, we did highlight that there's some opportunities potentially to grow that capital plan. But again, we don't want to get ahead of that process and, come Q1 of next year, we'll be in a position to provide more clarity on the capital plan going forward.

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Jeremy	IUIIEL

Analyst, JPMorgan Securities LLC

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Got it. I'll stop there. Thank you for taking my question.

Operator: And our next question today comes from Steve Fleishman at Wolfe Research. Please go ahead.

Garrick J. Rochow

President, Chief Executive Officer & Director, CMS Energy Corp.

А

Good morning, Steve.

Steve Fleishman

Analyst, Wolfe Research LLC

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Hi. Can you hear me okay?



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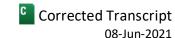
Garrick J. Rochow President, Chief Executive Officer & Director, CMS Energy Corp.	Δ
Yeah. Great.	
Steve Fleishman Analyst, Wolfe Research LLC	C
Hi, Garrick. Yeah, good. Good, thanks. So, just I'll follow on that last question. Just, should we think about the billion of incremental CapEx as being in your plan at this point, or that would still be kind of additive? And wor that require equity or would that also be doable without equity?	
Garrick J. Rochow President, Chief Executive Officer & Director, CMS Energy Corp.	Δ
I'll offer this. One, it'd be additive to the plan. And of course, we'll guide that through the regulatory process, ensuring that we continue to maintain affordability for all our customers. And so, you should assume that. But again, we're not going to issue – the intent here is no equity issuance over the course of the next three years through 2022 to 2024.	
Steve Fleishman Analyst, Wolfe Research LLC	C
Okay. Even with the \$1 billion more, potentially.	
Garrick J. Rochow President, Chief Executive Officer & Director, CMS Energy Corp.	Д
That's correct.	
Steve Fleishman Analyst, Wolfe Research LLC	Q
Okay. And then when you guys have been giving your growth rate guidance, you've been referring to a bias t midpoint. In all your recent updates. I don't really see that in here. Could you kind of maybe update us, is the maybe a bias given the lack of equity above the midpoint now?	
Garrick J. Rochow  President, Chief Executive Officer & Director, CMS Energy Corp.	Д
Well, that's very deliberate, Steve. There is no bias, and we're guiding to 6% to 8%. You've known us long enthat we plan conservatively and we've got a good confidence in continuing to deliver at that guidance range. as I stated earlier, we're going to just continue to be thoughtful about the deployment of capital from affordable for all our customers' perspective. So, just, it's what we do. You're used to our model there.	And
And also I just would offer this, we're going to continue – we've done this year-after-year when there are opportunities to reinvest for our customers and our investors in kind of that flex process, we will do that as we	ell.

And so, we believe that contributes to the consistency and the length and strength of, frankly, our financial

performance.

Steve Fleishman
Analyst, Wolfe Research LLC

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Okay. Great. Thank you.

**Operator**: And our next question today comes from Shahriar Pourreza at Guggenheim Partners. Please go ahead.

**Shahriar Pourreza** 

Analyst, Guggenheim Partners

Hey, guys. Hey, Garrick.

Garrick J. Rochow

President, Chief Executive Officer & Director, CMS Energy Corp.

Hey, Shar.

Rejji P. Hayes

Executive Vice President & Chief Financial Officer, CMS Energy Corp.

Hi, Shar.

**Shahriar Pourreza** 

Analyst, Guggenheim Partners

So, just got quick one from me. Maybe just a little bit more of your thoughts on sort of as we're thinking about the dilution and maybe the offsets from the transaction. So, you're taking out \$0.22 as earnings from the bank. Can you just elaborate maybe a little bit on the timing as we think about the organic growth redeployment? I guess, can you be a bit more specific on how that \$0.22 gets backfilled, including any sort of regulatory approvals that are needed for the key initiatives that help offset the lost bank earnings? I guess, is there any kind of risk to not offsetting the \$0.22 of drag?

#### Garrick J. Rochow

President, Chief Executive Officer & Director, CMS Energy Corp.

Yeah. I'll offer Rejji first whack you might say at this question, and I'll follow-up if there's anything else.

Rejji P. Hayes

Executive Vice President & Chief Financial Officer, CMS Energy Corp.

Yeah. Shar. So, we have taken into account obviously the absence of EnerBank's earnings over our planning period. And when you think about the potential opportunity to increase the capital plan by about \$1 billion, we would foresee that layering in not in 2022 obviously, given that our forward test years incorporate the current plan, but potentially from 2023 through 2025. And we foresee an opportunity over that timeframe to get back to the prior trajectory.

Now, clearly, we don't want to get ahead of the regulatory process. We don't want to get ahead of our planning process where we look at affordability and additional workforce capacity. And then clearly the other constraint we talked about in the past is balance sheet constraint and this solves that third issue. But we have to look at affordability and workforce capacity. But we feel good about the opportunity to potentially incorporate another \$1 billion. We would foresee that flowing in 2023 through 2025 which will be incorporated in subsequent rate cases. And, again, we do think we can backfill that in a reasonable amount of time.

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Shahriar Pourreza Analyst, Guggenheim Partners	Q
Got it. And then just – I'm sure this is something very small and minor, but is the we should be thinking about from this transaction?	ere any sort of dyssynergies that
Rejji P. Hayes  Executive Vice President & Chief Financial Officer, CMS Energy Corp.	Д
Yeah, Shahriar, the business to its full credit was very well decoupled from the stand-alone board, ran on its own, and there was very little commingled operat counsel and things of that nature. But it was really its own shop. And we also, a equity into the business for over a decade plus. And so, it really was a stand-a decoupling of it, assuming we close, would lead to any dyssynergies on either	ions. Occasionally, they'd get tax as you know, did not infuse any one operation. We do not think the
Shahriar Pourreza Analyst, Guggenheim Partners	Q
Perfect. Thank you, guys. Thanks, Garrick. Thanks, Rejji.	
Rejji P. Hayes  Executive Vice President & Chief Financial Officer, CMS Energy Corp.	Д
Thank you.	
Garrick J. Rochow President, Chief Executive Officer & Director, CMS Energy Corp.	Д
Yeah. Thanks, Shar.	
Operator: And our next question today comes from Stephen Byrd with Morga	n Stanley. Please go ahead.
Stephen Calder Byrd Analyst, Morgan Stanley & Co. LLC	Q
Hi. Good morning.	
Garrick J. Rochow President, Chief Executive Officer & Director, CMS Energy Corp.	A
Good morning.	
Rejji P. Hayes  Executive Vice President & Chief Financial Officer, CMS Energy Corp.	Д
Good morning, Stephen.	
Stephen Calder Byrd	

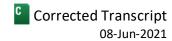
Thanks. Just a couple of questions for me. Just wanted to confirm on tax leakage. Is there is there any tax



Analyst, Morgan Stanley & Co. LLC

leakage here on proceeds?

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#### Garrick J. Rochow

President, Chief Executive Officer & Director, CMS Energy Corp.

Yeah. Rejji, please go ahead with that.

#### Rejji P. Hayes

Executive Vice President & Chief Financial Officer, CMS Energy Corp.

Stephen, this is Rejji. I can take that. So I would say the quick answer is, on a cash basis, it's de minimis. As you know, we've got a pretty good balance of NOLs and tax credits, and those should soak up most of the potential taxes you'd have on the gain. And so, our rough estimate is about \$30 million of cash tax leakage. Obviously, on a book basis, if you just look at the book equity versus the purchase price, you'd have a pretty decent size book tax leakage. Think about 5x above the cash tax leakage I highlighted. So on a book basis, fairly decent; but on a cash basis, which is much more important here, of course, pretty de minimis.

#### **Stephen Calder Byrd**

Analyst, Morgan Stanley & Co. LLC

Gotcha. That's helpful. And then, sorry to go back to the question on use of proceeds. But just to be clear, when we think about the 900-and-change million dollars here, approximately how much of that would be essentially to avoid the issuances that you were already planning for your base plan, versus how much would essentially be allocated for sort of incremental growth above the base plan?

#### Rejji P. Hayes

Executive Vice President & Chief Financial Officer, CMS Energy Corp.

Stephen, in the very near-term. So think about if we're assuming a Q4 close for the transaction, we'll get the proceeds right as we step into 2022. And we have pretty substantial debt estimates, call it, roughly \$0.5 billion and then obviously the equity which is, call it, \$0.25 billion. So in the near-term, it would obviate the need to issue any equity and reduce our debt financing needs substantially. And then, we feel very good about that the lack of any equity issuance needs from 2022 through 2024.

And so, you really forego a lot of external funding needs. And then, as we bring in the incremental capital that we've talked about at the utility, say, from 2023 and beyond, as Garrick noted, we don't anticipate any additional equity to fund that. So it funds in the short-term a lot of our external funding needs in the current plan. And then, if we can weave in or incorporate additional capital investments in the utility in our subsequent five-year plan, we think it funds a good portion of that growth as well. Is that helpful?

#### Stephen Calder Byrd

Analyst, Morgan Stanley & Co. LLC

Yeah. Yeah, that makes sense, Rejji, because we were kind of – we had you all at about \$250 million a year of equity. So, obviously, the \$930 million of net proceeds would take you beyond the three years, but – so it would help to finance that \$1 billion. And I guess there's, obviously, a lot of focus on the stock price today on the dilution. But I guess the dilution is essentially smaller by 2024 because of that avoidance. And you're obviously getting all the proceeds upfront, but you're also losing all the earnings upfront.

I guess I've been thinking about it roughly as you – it's essentially issuing equity at a little over 15 times earnings or thereabouts versus your overall company multiple, which is higher. But of course, this de-risks, it refocuses on the utility business that gets a higher multiple. So I guess that's kind of mathematically how I've been thinking through that. Does that kind of make sense?

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#### Rejji P. Hayes

Executive Vice President & Chief Financial Officer, CMS Energy Corp.

Yeah. That's exactly right. I mean, essentially, what this trade is when you cut through it is that we are trading bank earnings for utility earnings, and we anticipate doing that in a relatively short period of time. Yes, of course, in the short-term, as you redeploy the capital, you're going to have a little dilution given the loss of the bank's earnings. But over time, again, we expect to backfill that relatively quickly, and we think it's a much higher quality of earnings. And to Garrick's earlier comment in his prepared remarks, we are focusing obviously the vast majority of the earnings and the business profile in what we know best, and that is the regulated utility business.

# Stephen Calder Byrd Analyst, Morgan Stanley & Co. LLC Yeah. Yeah, that makes sense. And the dilution is a little higher, as you mentioned, because initially you'll avoid, call it. \$250 million of equity. The other proceeds can be used to pay down debt. But that's going to look a little

call it, \$250 million of equity. The other proceeds can be used to pay down debt. But that's going to look a little more dilutive near-term, but then it starts to even out as you avoid those issuances later on and in, I guess, sort of 2023 and beyond as you kind of spend additional capital to increase your earnings power further.

# Rejji P. Hayes Executive Vice President & Chief Financial Officer, CMS Energy Corp.

Right. The only thing I'm modifying in your working assumption there is that it's not to pay down debt. To be clear, it's just the avoidance of new money issuances. And so, obviously, every year...

Stephen Calder Byrd Analyst, Morgan Stanley & Co. LLC	C
Oh. veah.	

Rejji P. Hayes

Executive Vice President & Chief Financial Officer, CMS Energy Corp.

...we plan to issue new debt, new equity. And so, we would forego or not have the need to issue either of those. It's not paying down debt, but we're just reducing our planned debt financings for the year.

Stephen Calder Byrd Analyst, Morgan Stanley & Co. LLC	C
Good point. That's all I had. Thank you so much.	

Rejji P. Hayes

Executive Vice President & Chief Financial Officer, CMS Energy Corp.

Thank you.

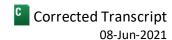
Garrick J. Rochow

President, Chief Executive Officer & Director, CMS Energy Corp.

Thank you.

**Operator**: And our next question today comes from Julien Smith with Bank of America. Please go ahead.

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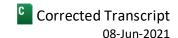
Garrick J. Rochow  President, Chief Executive Officer & Director, CMS Energy Corp.	A
Welcome, Julien.	
Julien Dumoulin-Smith Analyst, Bank of America Merrill Lynch	С
Hey. Good morning, team. Thanks so much for the time and the opportunity to connect here. I judiclear about just the baseline and, more importantly, where you stand within it. Obviously, you have reposition earnings over the cumulative CAGR period. Where would you say you are within that to which you're able to articulate eventually some of these upside \$1 billion of utility investments?	ve some time to range, the extent
Rejji P. Hayes  Executive Vice President & Chief Financial Officer, CMS Energy Corp.	Δ
Yeah. So, Julien, just to clarify, when you say range, do you mean the EPS guidance range? I ju clear that I address the right part.	st want to be
Julien Dumoulin-Smith Analyst, Bank of America Merrill Lynch	C
Oh, no. The 6% to 8% here.	
Rejji P. Hayes  Executive Vice President & Chief Financial Officer, CMS Energy Corp.	Δ
Yeah. So, that's what I thought you were asking.	
Julien Dumoulin-Smith Analyst, Bank of America Merrill Lynch	С
So that's right.	
Rejji P. Hayes  Executive Vice President & Chief Financial Officer, CMS Energy Corp.	Δ
Okay. So, again, as Garrick noted we were guiding 6% to 8%. We feel good about that in the long no bias. And so if just look at the rate base growth of our current capital plan, and then take out to your modeling will take you to pretty attractive levels. But our guidance is 6% to 8% and that's will for now. I think we've proven time and time again that we're very thoughtful in de-risking subsequence we have a good upside. And so, again, there is no bias, but we feel good right now where we sit longer-term.	the equity dilution here we'll keep it uent years when
Julien Dumoulin-Smith Analyst, Bank of America Merrill Lynch	С
Got it. Okay. No bias. But then in terms of the balance sheet and FFO, in terms of the pro forma latitudes for the agencies, can you talk about that a little bit further? I mean, it seems pretty clear need any incremental equity to fund the \$1 billion of CapEx where you just take the sales proceed.	that you don't

into the reinvestment of the business. But how do you think about FFO metrics required from the agencies and for



FFO otherwise?

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Rejji P. Hayes

Executive Vice President & Chief Financial Officer, CMS Energy Corp.

Α

Yeah. So, as per my prepared remarks, we still feel good about maintaining our targeted credit metrics for FFO to debt in that mid-teens level which we've been guiding to for some time, and we think that keeps us in that solid investment-grade credit ratings that we've worked very hard to achieve at this point.

I would say directionally for Moody's and Fitch, it's neutral on a credit metric basis. S&P, there should be some pick-up there because S&P, unlike Moody's and Fitch, did include the core deposits of EnerBank and there was about \$2.8 billion in their imputed debt calculations. And so, with the absence of EnerBank post-closing, you should see a decent lift for S&P to the tune of about 200 basis points run rate. So, you'll see a lift with S&P, but for Moody's and Fitch I'd say relatively neutral, if that's helpful.

Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

Got it. And so, I just want to clarify this to be extra, extra clear. The 6% to 8% is off the original 2021? Question mark.

Rejji P. Hayes

Δ

Executive Vice President & Chief Financial Officer, CMS Energy Corp.

No, no, no. So, no. The 6% to 8% is off of the 2022. And so if you just look at the math of what we're guiding for 2022, so we've said \$2.85 to \$2.87. That implies pretty attractive growth off of 2021 continuing operations. It should get you slightly over 9%. And we're saying off of that new base in 2022, we would grow 6% to 8%, again with no bias in, say, 2023 and beyond. And obviously over time we'll recalibrate. But we feel good where we sit today again given what we've highlighted that we're losing a lot of external funding needs, that there's an opportunity to increase the capital plan at the utility by roughly \$1 billion, we think that all suggests a very attractive and consistent growth once we get beyond 2022.

Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

Okay. Thank you, guys, for clarifying that.

Rejji P. Hayes

Δ

Executive Vice President & Chief Financial Officer, CMS Energy Corp.

Thank you.

**Operator**: And our next question today comes from Michael Weinstein with Credit Suisse. Please go ahead.

Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC

Hey, guys.

Garrick J. Rochow

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President, Chief Executive Officer & Director, CMS Energy Corp.

Hey. Good morning.



**EnerBank USA Divestment Call** 



#### Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC

Just to follow up on everybody else's questions. Rejji, if you're using 2022 as a base, right, that would imply a lower growth rate versus the prior guides which – I think would be a 2020 number, right, 2020 base. If you go out to like 2025, you would wind up at a lower number, if you're just growing off that \$2.85 to \$2.87 for 2022.

Rejji P. Hayes

Executive Vice President & Chief Financial Officer, CMS Energy Corp.

Hey, Michael, what I would add is, remember, we update our five-year plan every year. And so, again, we've highlighted that we believe we have the opportunity where we sit today to add another \$1 billion to our five-year plan. But we don't want to get ahead of that process. And so, what's missing from your working assumption is the fact that the capital plan may increase in Q1 of next year. And we don't want to get too far ahead of that process, but where we sit today we think it's roughly \$1 billion. And you'll see attractive rate base growth as a result of that, and then again absent any additional equity to fund that additional rate base growth.

And so, a higher level of rate base growth driven by a higher capital plan with less equity dilution and in the short-term, reduced debt financings over the course of 2022, and we think it drives, again, very attractive growth from 2022 and beyond. So, again, we don't want to start giving guidance out to 2024 and 2025, but we do think we should get pretty close to that initial trajectory over the foreseeable future.

Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC

The initial trajectory, what do you mean by that? Like, what are we basing with the initial trajectory off of?

Rejji P. Hayes

Executive Vice President & Chief Financial Officer, CMS Energy Corp.

The initial trajectory is our current plan before what you heard today in the sale of the bank. So, our current plan before announcing the sale today had a certain level of EPS trajectory associated with it. And now with the sale of the bank, coupled with the reduced external financing needs and then adding additional capital investments to fund rate base growth, we think gets back to that current trajectory we were on prior to today's announcement in a relatively short period of time.

Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC

Right. So, basically what you're saying is you have 6% – officially, it's 6% to 8% off 2022, but it's the high end of that or it's boosted by the \$1 billion of additional growth. And then that gets you back to the original initial trajectory by 2024, 2025?

Rejji P. Hayes

Executive Vice President & Chief Financial Officer, CMS Energy Corp.

I'll go back to saying no bias, and you can extrapolate as you see fit, but there is no bias. Again, we're guiding 6% to 8% off of 2022. And again, as we update our capital plan over the course of next year, as we highlight our funding needs, we feel very good about the need for no new equity, and we feel good about the prospects of growing the capital plan next year, which will drive more attractive rate base growth. And so, it's 6% to 8% off of 2022, and we have nothing more to provide beyond that, and there's no bias.

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Michael Weinstein Analyst, Credit Suisse Securities (USA) LLC	Q
Okay. Thanks a lot, guys.	
Rejji P. Hayes Executive Vice President & Chief Financial Officer, CMS Energy Corp.	А
Thank you.	
Michael Weinstein Analyst, Credit Suisse Securities (USA) LLC	Q
Okay.	
Operator: And our next question today comes from Travis Miller of Morningstar. Please go ahead.	
Travis Miller Analyst, Morningstar, Inc. (Research)	Q
Good morning. Thank you.	
Garrick J. Rochow President, Chief Executive Officer & Director, CMS Energy Corp.	А
Good morning, Travis. Good morning.	
Travis Miller Analyst, Morningstar, Inc. (Research)	Q
You've answered almost all my questions. Just real quick return to two quick things to clarify. One, on the dividend payout ratio, I know you said 60%. If you look at obviously what you're going to do in 2022, it implies essentially no increase. How flexible do you think the board would be in that 60% target? Would you be comfortable going up to like a 64%, 65%; or are we 60%, period?	S

Garrick J. Rochow

President, Chief Executive Officer & Director, CMS Energy Corp.

Yeah. Let me offer some comments on this and then I'll certainly turn it over to Rejji. And so, I'm not going to make any commitments on behalf of the board or conversation with the board. We offer what we believe a competitive payout ratio. And, frankly, we do a lot of benchmarking on that as well to ensure it's competitive across – on the space. And so, we'll continue to be thoughtful about that as we move forward. But, I mean, what we're committed to in this call is the 60% payout ratio.

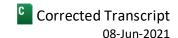
I don't know, Rejji, if you want to add more to that.

#### Rejji P. Hayes

Executive Vice President & Chief Financial Officer, CMS Energy Corp.

No, I think that's right. The only thing I would add, Travis, is that we do benchmark our peer group and we look at retention rates and payout rates. And we try to benchmark as closely to those who are growing at a comparable level. And so, we'll take that into account. And as per my prepared remarks, we feel good about the guidance of approximately a 60% payout ratio, but clearly we're not going to get ahead of our board on that.

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#### Travis Miller

Analyst, Morningstar, Inc. (Research)

Okay. Very good. And then second clarification or thoughts in terms of your long-term view on parent-level debt, without the bank earnings and cash flow. Are you comfortable with what you've got? I know you've got maturities coming up here in the next five or so years. What are your thoughts long-term on that parent level debt?

#### Rejji P. Hayes

Executive Vice President & Chief Financial Officer, CMS Energy Corp.

Yeah, Travis, we have really targeted trying to be around 30%. And that should over time reduce just with the cash flow generation of the business and just less debt financing needs at the parent over time. And so, we anticipate being sort of in that 30% range and do foresee it ticking down over time.

#### Travis Miller

Analyst, Morningstar, Inc. (Research)

Okay. Great. Appreciate it. Thanks.

**Operator**: And our next question today comes from Andrew Weisel with Scotiabank (sic) [Scotia Howard Weil]. Please go ahead.

#### **Andrew Weisel**

Analyst, Scotia Howard Weil

Thanks. Good morning, everyone. Just wondering, within the 6% to 8% range, is there a bias one way? No, I'm just joking. I understand you're going to be conservative and not answer that, but signs to be pointing up. Just two clarifying questions I have for you. First on equity after 2024, is \$250 million a good number for us to pencil in for 2025 and beyond?

#### Garrick J. Rochow

President, Chief Executive Officer & Director, CMS Energy Corp.

So, Andrew, I appreciate your question and I'm just glad we're not talking about swimming pools. That's what I'm really glad about. The bottom line right now is our plan in 2025 is \$250 million of equity – up to, I should say, \$250 million of equity issuance in that year. And, again, a lot can change between now and then, and we'll be thoughtful about what that looks like in 2025.

#### **Andrew Weisel**

Analyst, Scotia Howard Weil

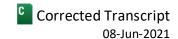
Okay. Then just quickly on the CapEx. So you point to \$1 billion of upside. I understand you don't want to get ahead of your next update or the regulators, but you've got the IRP going on underway. So that 10-year plan hasn't been updated since the last IRP with the \$3 billion to \$4 billion of opportunities. When can we expect an update and go-forward to the 10-year CapEx plan? And is that part of the same process as adding the \$1 billion, or are those two independent tracks?

#### Garrick J. Rochow

President, Chief Executive Officer & Director, CMS Energy Corp.

Yeah. I would not link this activity and this transaction with our IRP or our plans for the IRP at all. And so, yes, they fall in the same month, and we've got good news here on this transaction and we'll share some exciting news

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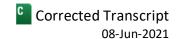


on our IRP, but I would not link the two. We are going to file this IRP here June 30th, and we're looking out 20 years on what the supply needs are, as you well know, Andrew.

And we'd be getting way ahead of our skis if we started to connect the two. There's a whole regulatory process in front of us with this Integrated Resource Plan. So we're just going to be very thoughtful about that. Now, there could be some additional capital investments as part of our Integrated Resource Plan. And at some point, we'll have some type of true-up if in fact it's approved in that process. At this point, we'll update our five-year look here in Q1. And then, if it makes sense, we'll look at our 10-year plan later in 2022.

Andrew Weisel Analyst, Scotia Howard Weil	Q
Okay. Understood. So just to be sure then, the \$1 billion of upside that you're pointing to in the slide do not related to the IRP, nor related to this transaction? You're simply emphasizing that that's something might see in six months or eight months or whatever the next update is. Is that right?	-
Garrick J. Rochow President, Chief Executive Officer & Director, CMS Energy Corp.	А
Yeah, that's correct. As we typically do in Q1 is update our five-year capital plan. But I'd just go back a what we shared here on the slide and have shared here over the last couple years. There's \$3 billion of opportunity. Those are specific projects that we have identified that offer greater improvements in creliability, modernization of the grid, decarbonization across our natural gas business, help with our clatransformation. And so, those are our thoughtful investments, customer oriented investments that we'feather in as appropriate.	to \$4 billion our electric ean energy
Andrew Weisel Analyst, Scotia Howard Weil	Q
Great. Thank you. And congrats on getting the deal done.	
Garrick J. Rochow President, Chief Executive Officer & Director, CMS Energy Corp. Yeah. Thank you.	А
Operator: And our next question comes from Paul Patterson with Glenrock Associates. Please go a	head.
Paul Patterson Analyst, Glenrock Associates LLC	Q
Hey. Good morning.	
Garrick J. Rochow President, Chief Executive Officer & Director, CMS Energy Corp. Hello, Paul. Good morning.	А
Paul Patterson  Analyst, Glenrock Associates LLC	Q
If I recall, you guys tried to do this earlier, many years ago with Home Depot, is that right?	

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Garrick J. Rochow

President, Chief Executive Officer & Director, CMS Energy Corp.

That's correct.

Paul Patterson

Analyst, Glenrock Associates LLC

And, obviously, the conditions changed and what have you. But I'm just wondering, with respect to the current situation, how should we think about it? Are there any special contingencies or anything associated with this deal, or is it just pretty much sort of the customary nuts and bolts kind of closing conditions?

Garrick J. Rochow

President, Chief Executive Officer & Director, CMS Energy Corp.

Rejji is chair of our board. I think he shared that in his prepared remarks. He's close to the transaction specifics. And so, Rejji, if you wouldn't mind.

Rejji P. Hayes

Executive Vice President & Chief Financial Officer, CMS Energy Corp.

Happy to. Yeah. Paul, I would say, certainly a different fact pattern from when we tried to trade the bank in 2007 to Home Depot. And so, Regions Bank, a subsidiary of Regions Financial Corporation, is a traditional bank. And so, the regulatory approvals are limited to the FDIC (sic) [Federal Reserve], to our Utah Department of Financial Institution and the Alabama State Banking Authority. And so, we do not anticipate the same types of obstacles we had in the Home Depot trade. And I'd say the other closing conditions and terms and conditions in general are pretty customary for a merger agreement. So we feel good and cautiously optimistic about the ability to close in Q4 of this year.

Paul Patterson

Analyst, Glenrock Associates LLC

Okay. All my other questions were answered. Thanks so much.

Garrick J. Rochow

President, Chief Executive Officer & Director, CMS Energy Corp.

Thank you.

**Operator**: And our next question today comes from Anthony Crowdell with Mizuho. Please go ahead.

Anthony Crowdell

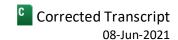
Analyst, Mizuho Securities USA LLC

Hey. Good morning. Hopefully, a quick question, following up on Mike Weinstein's question earlier. I guess, does management prefer to get back to the original target as they move in the out years and get back to the original track of that chart we would see with the 7% over 20 years, and this would just look like a divot maybe this 2021, 2022, 2023 possibly? Or is the goal to maybe have a steeper curve with the new base? Is that the preferred longterm story at CMS?

Garrick J. Rochow

President, Chief Executive Officer & Director, CMS Energy Corp.

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Well, let me offer this, and I'm sure Rejji is going to want to jump into this. And so, what was communicated here is 2022 at the 6% to 8% and again, we haven't referenced a bias with that 6% to 8%. But I think the bigger picture question in my mind is the shift, and it's a shift from bank type earnings to utility type earnings. And we know and we believe that our investors ascribe great value to that. There's a lot more predictability in that. And, frankly, that's in our wheelhouse. That's in our expertise.

And so, I'm not going to make any promises about 2025. That's pretty far out. We've got a good financial plan and we'll continue to be conservative as you would expect. We've done that historically. And I think our track record speaks for itself on the ability to deliver on our guidance range.

But, Rejji, I don't know if you want to add more to that conversation.	
Rejji P. Hayes  Executive Vice President & Chief Financial Officer, CMS Energy Corp.	Д
No, Garrick. I think you summarized it well.	
Anthony Crowdell Analyst, Mizuho Securities USA LLC	Q
And then just lastly, how do you view Enterprises? Do you view that as a core asset or just bolt-on Enter And I'll leave it there.	prises?
Garrick J. Rochow President, Chief Executive Officer & Director, CMS Energy Corp.	А

Yeah. Enterprise is an important part of our company and again when I think about their work and I think about our wheelhouse of energy markets, capacity markets, renewable – contracted renewables, biomass and natural gas generation, those are the things that we do in the utility. But as we've shared we're going to be greater than 95% pro forma on an EPS basis, on an adjusted EPS basis as we look forward.

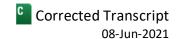
So Enterprises will be part of that. It'll be a tidy – what I call a tidy piece of that because it offers great value for our customers. As we shared in the past, some of – particularly our customers that have a national footprint want us to be able to deliver options from a contract renewable perspective. And we are able to do that at utility-like returns. And so, that's a need and we deliver on that need for our customers.

And then, we'll continue to optimize our traditional assets, those biomass units, those natural gas units across energy and capacity markets. And so, again, I feel good about the mix from a broader company perspective and the role that Enterprises plays.

Anthony Crowdell  Analyst, Mizuho Securities USA LLC	Q
Great. Thanks for taking my questions.	
Operator: And our next question today comes from Sophie Karp at KeyBanc. Please go ahead.	
Sophie Karp  Analyst, KeyBanc Capital Markets, Inc.	Q



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Hi. Good morning. Thank you for squeezing me in here. Just a housekeeping question. Am I reading this right that there's no debt that actually will be leaving your balance sheet with this sale?

Garrick J. Rochow

President, Chief Executive Officer & Director, CMS Energy Corp.

It was hard, Sophie – thanks for joining, but I had a hard time hearing the whole – the entire part of the question. So could you repeat?

Sophie Karp

Analyst, KeyBanc Capital Markets, Inc.

Yes. Hi. Is this better?

Garrick J. Rochow

President, Chief Executive Officer & Director, CMS Energy Corp.

That's a little better.

Sophie Karp

Analyst, KeyBanc Capital Markets, Inc.

I just had a housekeeping question here. Am I reading this right that no debt will be leaving your balance sheet as a result of this sale?

Garrick J. Rochow

President, Chief Executive Officer & Director, CMS Energy Corp.

Yeah, Rejji, why don't you address the balance sheet piece there?

Rejji P. Hayes

Executive Vice President & Chief Financial Officer, CMS Energy Corp.

Yeah, Sophie. So, to be clear, EnerBank has core deposits which are liabilities. And per S&P's calculation of credit metrics debt equivalent. And so with the potential sale of the bank, those core deposits obviously would go with the business. And from an S&P credit metric perspective it would be de-levering event. But for Moody's and Fitch, they already exclude those core deposits. And so, it would be as I highlighted earlier credit metric neutral from a Moody's and Fitch perspective.

Sophie Karp

Analyst, KeyBanc Capital Markets, Inc.

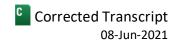
Yeah, but should we model a reduction in Parent level debt or liabilities from your balance sheet as a result of this sale?

Rejji P. Hayes

Executive Vice President & Chief Financial Officer, CMS Energy Corp.

So no parent debt would go away as a result of the transaction, but there is – I said core deposits, they're more formally called brokered deposits. But those brokered deposits would go away from our balance sheet. It's about \$2.8 billion or so that would go away from our balance sheet as a result of the transaction, assuming we close in Q4 of this year.

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#### Sophie Karp

Analyst, KeyBanc Capital Markets, Inc.

Got it. Thank you so much.

#### Rejji P. Hayes

Executive Vice President & Chief Financial Officer, CMS Energy Corp.

Thank you.

**Operator**: And Ladies and gentlemen, this concludes our question-and-answer session. I'd like to turn the conference back over to Garrick Rochow for any closing remarks.

#### Garrick J. Rochow

President, Chief Executive Officer & Director, CMS Energy Corp.

I just want to thank everyone for joining us today for this announcement. Appreciate your time and wishing you a safe and happy day. Take care.

**Operator**: Thank you, sir. This concludes today's conference. And thank you all for your participation. You may now disconnect your lines, and have a wonderful day.

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