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CMS Energy Corp. (CMS)

Q2 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to the CMS Energy 2020 Second Quarter Results. The earnings news release issued earlier today and the presentation used on 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 12:00 PM Eastern Time running through August 10. This presentation is also being webcast and is available on CMS Energy's website in the Investor Relations section.

At this time, I'd like to turn the call over to Mr. Sri Maddipati, Vice President of Treasury and Investor Relations.

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 Patti Poppe, President and Chief Executive Officer; and Rejji Hayes, Executive Vice President and Chief Financial Officer. 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 measure are included in the Appendix and posted on our website.

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

Patricia K. Poppe

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

Thank you, Sri. And thanks for joining us today for our second quarter earnings call everyone, it's great to be with you. This morning I will discuss our strong first half results and the actions we've taken to adapt to the challenges in the current year, while keeping an eye on delivering our long-term growth in 2021 and beyond. Rejji will add more details on our financial results, including impacts related to COVID-19 and offsets we're seeing from the CE Way among other items and as always we'll close with Q&A.

For the first half, we delivered adjusted earnings per share of \$1.35, up 25% from the same period in 2019. Our first half results were primarily driven by best-in-class cost management, favorable sales mix and timely regulatory recovery as we continue to respond to the ongoing and ever-changing circumstances presented by COVID-19.

As we've demonstrated through our commitment to the triple bottom line and the CE Way, we can tackle and surpass extreme challenges operationally and financially presented by this pandemic and its resulting economic impact. Given the better visibility we have on the pandemic and Michigan's economy reopening, we are pleased to reaffirm our adjusted guidance for the year of \$2.64 to \$2.68, with a bias to the midpoint. We continue to target long-term annual earnings and dividend per share growth of 6% to 8%, again with the bias to the midpoint.

While ESG has been a more prominent topic recently, for us it's nothing new. Our long-term thesis is built on our commitment to the triple bottom line of people, planet, and profit underpinned by performance which is our way of talking about and activating ESG in our decision-making processes. It starts with people, of course, our coworkers, our customers and the communities that we serve. We've continued to provide an essential service during these unpredictable times while keeping our coworkers safe through smart work practices, including working from home, direct to jobsite reporting, social distancing in our work locations and ensuring we have adequate testing and PPE.

During this pandemic, the social awakening and the local flooding in Midland, Michigan, we've leveraged our foundation to support our customers and communities. Our ability to respond and deeply care for our coworkers and communities is made possible through the diverse team we have here at CMS Energy. We've maintained a strong commitment to diversity at CMS for many years and this is reflected in the makeup of our board and our management team. But our work is far from complete, which is why I'm excited about our recent promotion of Angela Thompkins as our Vice President and Chief Diversity Officer. All of us own the effort to improve diversity, equity and inclusion at all levels, Angela's leadership will be vital for us now and in the future. Angela coauthored our DE&I strategy in conjunction with the senior management team over the past several years. As a result of this focus, we were prepared for this time and the important conversations that are underway inside our company and nationwide.

Our focus on the planet has not wavered. We have net zero plans for both our gas and electric businesses which are among the most aggressive in the industry, both in terms of magnitude and timing. While our efforts in the future are ambitious including over 6 gigawatts of added solar over the next 20 years, I like to remind folks we've already made an enormous amount of progress with the closure of our 7 of our 12 coal plants with the next two scheduled for closure in 2023.

In addition to new renewables, we're replacing our retiring capacity with new and innovative solutions such as our Demand Response Program we ramped up this year with our first of its kind partnership with Google to offer 100,000 Nest thermostats free to our customers. We believe in a clean and lean energy future and we plan to lead the way.

All our efforts and success wouldn't be possible without the capital you provide. So that last P for profit is always top of mind. As you can see in the numbers and as we're highlighting for you this morning, our coworkers have been busy since we last updated you, successfully identifying over \$65 million of operating cost reductions since the pandemic began, in addition to a variety of year-over-year savings totaling \$0.19 year-to-date and our foot is on the gas. Our lean operating system provides the ability to create reductions like these in the current year and enables delivering in the years to come as the savings carry forward.

And back by popular demand, it's time for my story of the month. This one comes from our Jackson Generating Station where twice a year we replace couplings that help maintain lubrication on each of the six gas engines there. So, that's 12 replacements over the course of a year. Now while this is often routine work, the team at the plant didn't just follow the routine, they brought their 18 years of on-the-job experience to the table and recommended an alternative coupling, which had the same performance and life expectancy, but at a fraction of the cost. The team took ownership with the CE Way as they proposed this cost saving idea. This simple, but important change led to over \$30,000 of annual savings.

Now, some of you may be saying, Patti, come on, \$30,000 is not a lot of money. But what you forget is that there are thousands of stories like this across our company. And when you add up nickels and dimes, you get dollars and fives. So, I'd like to give a shout out to my three coworkers who made this happen. Ted, Dave and Butch, thank you guys for taking full ownership of our company's financial and operational targets and delivering for all of our stakeholders. This is just one example of how our coworkers are feeling empowered to apply to the CE Way to their everyday work and ultimately improving performance throughout the whole company.

The visual on slide 6, my personal favorite, serves as another reminder of our team's ability to adapt to deliver the financial results you've come to expect regardless of the headwinds. 7% EPS growth every year is not an accident. We wrote the book on adapting to changing conditions and delivering results in the current year that enable next year's success. Consistency is our hallmark and this year is no different. We continue to ride that rollercoaster and it's been a wild ride so far this year, so that you can count on the predictable EPS and dividend growth you've come to expect.

Looking to regulatory matters, Commissioner Dan Scripps was recently named Chair of the Public Service Commission here in Michigan. He's taken over for Commissioner Talberg, who's being considered for a new role on the ERCOT Board beginning in January 2021. We want to thank Sally for her leadership and look forward to continuing to work with her through the remainder of her time on the Commission. We congratulate Chair Scripps as he transitions into his new role.

We'll remind you that the Commission ordered utilities to defer uncollectible accounts and track those expenses above what's currently approved in rates, which speaks to our constructive regulatory environment here in Michigan. We're thankful to be able to work with the Commission to serve our customers in a caring way during this very uncertain time. We also have pending gas and electric rate cases, and the MPSC Staff's positions in both demonstrate great alignment with our capital investment plan and rate base growth. We expect an order in our gas case in October and on our electric case by the end of the year.

Thanks to low priced commodities, our cost saving capability and no-big-bets investment philosophy, we can both invest in safety, reliability and resilience of our infrastructure and protect customers from price spikes and surprises through tough economic times like these. The needs of our system do not change because of a global pandemic and our customers' expectations don't either. Our business model allows us to serve both.

Now, turning to Enterprises, where I'm pleased to highlight the measured growth of our contracted renewables business. As you may have seen last week, we acquired a majority ownership of a 525-megawatt contracted wind project. Construction of the project is largely complete and has an expected commercial online date set for later this month. The project will offer utility-like returns and is largely committed to Facebook and McDonald's as customers. The bulk of the project is being financed with tax-equity and the remainder will be financed with cash on hand from our upsized hybrid offering and without the need to issue incremental equity beyond our planned \$250 million this year.

This project continues our track-record of developing renewables for key corporate customers while minimizing risk and providing attractive returns that complement our existing portfolio of assets, including DIG. While the growth of our business will be dominated by our investment in the utility, we'll continue to seek low risk opportunities to grow our contracted renewables business at Enterprises by leveraging our relationships with customers and capabilities as world-class operators.

As you are well aware, especially this year, conditions are always changing. Our entire team has demonstrated our ability to adapt for the good of the people we are privileged to serve. This agility has enabled us in the past, and will enable us in the future, to deliver consistent, industry-leading performance year after year after year.

With that, I'll turn the call over to Rejji.

Rejji P. Hayes

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

Thank you, Patti, and good morning, everyone. For the second quarter, we delivered adjusted net income of \$139 million, which translates to \$0.49 per share. Our second quarter results were \$0.16 above our Q2 2019 results largely due to cost performance, favorable weather and rate relief, net of investment-related costs at the utility. Our non-utility business performed as expected as EnerBank had increased origination volume and Enterprises had planned outages at its Grayling and Craven facilities.

Our adjusted earnings for the quarter exclude select non-recurring items, primarily related to severance and retention costs associated with the pending retirement of our Karn coal facilities and expenses resulting from a voluntary coworker separation program. Both of which commenced in the fourth quarter of 2019.

Year-to-date, we have delivered adjusted net income of \$384 million or \$1.35 per share, up 25% from the same period in 2019 as Patti noted. All-in, we are tracking as planned and navigating the impacts of the pandemic by delivering on cost reduction initiatives and planning conservatively.

As highlighted during our first quarter call, we are closely monitoring our electric sales at the utility, which has historically been our most sensitive financial metric during economic downturns, particularly in the commercial and industrial segments. At the end of April, when we were in the initial stages of the pandemic with extensive social distancing measures in place statewide and most businesses closed, we experienced significant declines in our commercial and industrial normalized load while residential load increased as people stayed home.

Well, I'm pleased to report that with the phased reopening of Michigan's economy over the past few months, our C&I electric sales have begun to recover, particularly in the higher margin commercial segment. And what we are witnessing in Michigan is that while businesses reopen, they're maintaining high levels of mass teleworking, which drives power consumption at homes during business hours.

So, our residential sales have remained elevated while commercial and industrial sales are starting to return to their pre-pandemic levels. Our normalized load trends for the quarter reflect some of this but we're even more encouraged by what we've observed in July given the visibility afforded by our smart meter technology. The bar chart on the upper left-hand side of slide 11 highlights our year to-date normalized load trends, which show total electric sales down about 5%, exclusive of one large, low margin customer. However, the aforementioned favorable sales mix has largely mitigated the year-to-date decline in normalized load.

And I'll remind you that every 1% change in residential sales equates to over \$0.03 of EPS impact on a full year basis, and our combined electric and gas customer contribution skews toward the residential segment.

Our sales outlook for the full year reflects a sustained level of favorable mix with residential sales up around year-to-date levels and with conservative assumptions around the recovery of the commercial and industrial segments. Lastly, given that the coronavirus is not yet fully contained, the low-end of our sales outlook range incorporates a stress scenario which assumes a second wave during the latter part of the year.

Switching gears to EPS, you can see the key items impacting our financial performance relative to 2019 in our waterfall chart on slide 12. If I could summarize in two words the key driver of our financial performance in the first half of 2020, it would be cost performance. As noted in the table on the left-hand side of the page, as Patti noted, we delivered \$0.19 of positive variance versus 2019 by reducing operating and non-operating costs throughout the business, which more than offset the \$0.07 of negative variance due to weather in the first half of the year and the C&I sales degradation and emergent costs directly attributable to the pandemic. It is also worth noting that the levels of cost savings achieved in just the first half of the year exceed previously referenced historical levels of cost performance over the past 10 years.

As we step into the second half of the year, as always, we plan for normal weather which in this case implies \$0.07 of negative variance versus the prior year. We're also assuming a constructive outcome in our pending gas case which equates to \$0.02 per share of pick up.

Lastly, we are ever mindful of a potential resurgence of the virus in Michigan and other common sources of risk to our business such as mild weather and storms. As such, we're planning conservatively by continuing to deliver on our cost reduction initiatives to establish sufficient contingency should any of the aforementioned risks arise. You can see in the table on the right hand side of the page, our estimates for the potential EPS impacts of the forecasted sales range I referenced on the prior slide, which, as noted, incorporates a potential second wave in Michigan, as well as additional expenses related to the pandemic, which we estimate at \$0.09 per share in aggregate.

To offset these potential risks, we're on track to deliver another \$0.10 per share of cost savings which is further supported by an additional \$0.10 per share of weather-related tailwinds that we've observed in our July electric sales. This glide path provides good financial flexibility heading into the final five months of the year to mitigate risks that emerge in 2020 while beginning to de-risk 2021 and beyond through operational cost pullaheads and other means to the benefit of customers and investors.

Now, on to capital. Our customer investment plan remains on track for the year as we continue to make progress on our numerous electric and gas supply and infrastructure projects while keeping our coworkers safe by adhering to the CDC guidelines. We're often asked whether we've seen disruptions in our supply chain for renewable projects, and I'm pleased to report that we remain on track on all fronts. In fact, our Gratiot and Hillsdale wind farm projects, which will collectively supply over 300 megawatts and help us meet Michigan's 15% renewable standard by 2021, are on course for commercial operation in 2020.

Similarly, we continue to make progress towards the 1,100 megawatts of new solar supply through build transfer agreements and contracted solutions by 2024. As a reminder, this represents the first tranche of the 6,000-megawatt program that Patti noted, as approved in our Integrated Resource Plan in June of last year.

Longer-term, our current plan calls for approximately \$12.25 billion of customer investments over the next 5 years and supports rate base growth of 7% over that period. This capital plan reflects the continued modernization of our electric and gas infrastructure as well as increased investments to decarbonize our electric generation assets. We'll also remind you that our 5-year customer investment plan is not limited by the needs of our system, but instead by balance sheet constraints, workforce capacity and customer affordability.

To elaborate on the point around customer affordability, as we work toward delivering on cost reduction initiatives in 2020, our bias remains toward projects that deliver sustainable savings to create long-term headroom in customer bills. As you'll note on slide 14, our \$5.5 billion cost structure offers ample opportunities to reduce costs through the expiration of high-priced PPAs; the retirement of our coal fleet; capital-enabled savings as we modernize our electric and gas distribution systems and the continued maturation of the CE Way. The long-term headroom created in our electric and gas bills by these efforts will support our substantial customer investment needs at the Utility to the benefit of customers and investors.

You can see the long-term effects of our historical cost reduction efforts in the chart on the right-hand side of the slide, which illustrates how we've managed to keep customers bills low on an absolute basis and relative to other household staples in Michigan while investing over \$17 billion of capital over that timeframe. As I've said in the past, paying \$5 to \$6 per day for clean, safe and reliable electricity and natural gas is an extraordinary value proposition due in no small part to our cost discipline and triple-bottom-line mindset.

Switching gears to our financing plan, we were quite active in the second quarter, opportunistically tapping the market to complete the vast majority of our planned financings for the year. From an equity financing perspective, we announced on our Q4 call, our plan to issue up to \$250 million of equity; all of which is priced under existing equity forward contracts, and we exercised \$100 million of that capacity in late March with the remaining \$150-million tranche still outstanding. We also filed a prospectus supplement during the quarter for \$500 million to refresh our ATM program, which is intended to cover our equity needs over the next 3 years.

All of our financings have been executed at terms favorable to our plan, which offer intra-year savings and help de-risk the future. We have also maintained a healthy bias toward liquidity management with over \$3 billion of net liquidity available in the event the capital markets become choppy again. As we look ahead, we'll continue to maintain flexibility and capitalize on accommodative market conditions when they emerge.

And with that, I'll pass it back to Patti for some closing remarks before we open up the lines for Q&A.

Patricia K. Poppe

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

Thanks, Rejji. Our team is committed to delivering for customers and you, our investors. The capital you provide is critical and our long-term track record of managing that capital speaks to that commitment. We remain good stewards of our balance sheet with prudent planning and already this year, we've executed financings at attractive rates that enable us to fund our capital programs.

We continue to rely on the CE Way and lean into that lean operating system we have in place, and as a result we improve both our cost structure and our customer experience each and every day. Michigan continues to remain a top-tier regulatory jurisdiction. With forward-looking test years and 10-month rate cases, we're fortunate to have such a constructive regulatory framework in statute.

Our system remains in great need of replacements and upgrades that won't go away as a result of the current pandemic. We are fortunate that our plans have embedded structural cost reductions in the form of retiring coal plants and PPAs retiring. None of this comes at a price to our planet and our home state of Michigan. Our net zero carbon and methane plans remain as important today as the day we established them. Our model holds together well and that's why the thesis remains strong, and that's why we can rely on our triple bottom line to get us through this ongoing pandemic just as it has in the past and will do in the future.

With that, Rocco will you please open the lines for Q&A?

QUESTION AND ANSWER SECTION

Operator: Thank you very much Patti. The question-and-answer session will be conducted electronically. [Operator Instructions] We'll pause for just one second. Our first question today comes from James Thalacker with BMO Capital Markets. Please go ahead.

James M. Thalacker

Analyst, BMO Capital Markets Corp.

Q

Good morning. Hi, guys. How are you?

Patricia K. Poppe

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

A

Great. Good morning to you.

Rejji P. Hayes

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

A

Hey James.

James M. Thalacker

Analyst, BMO Capital Markets Corp.

Q

Just real quick follow-up, maybe this one is for you Rejji. Clearly July has been hot and you've actually had the benefit of the mix with resi continuing to be very, very strong, commercial is kind of trending on the lower end of where your forecast was, but industrial is kind of on the higher end. As you think about sort of the full year it seems like those things have kind of balanced out and kind of kept you in check as you've pushed cost savings through. But Rejji you mentioned kind of sort of maybe we see a double dip on COVID as we go into the back half

of the year. How are you thinking about those sales forecasts as we think about the second half in case we do have sort of a resurgence in the virus?

Rejji P. Hayes

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

A

James, good question. So we did take that into account. And so, I'll point you to slide 11 where we show the downside range embedded in our full year forecast in the lower left hand corner of the page. And so, you can see we are taking into account a potential second dip in a stress scenario. And so that shows commercial backing up to around 12% on a full year basis, which obviously means that the latter two quarters will be quite bad. And then you can see industrial at 18% again on the low end and that excludes one large low margin customer, which would even make that number a little lower.

And so, we are taking that into account and I'll also point you to the next slide, slide 12 where we estimate what that margin impact will be at \$0.07 of EPS dilution. We're also mindful of the potential emergent costs that may come around if there is a second dip. And so, we're taking into account quarantine-related expenses, potential sequestration related costs and we think that that's probably another \$0.02. And so all-in we think there's about \$0.09 of EPS related dilution in the event there's a double dip. And so when we look at July sales based on our smart meter data coupled with our cost savings that we feel very good about achieving over the second half of the year. We feel like we have sufficient cushion to stomach that downside case. Now obviously it's a pandemic, and so this is unprecedented. But we feel good about the road ahead just based on our current calibrations.

James M. Thalacker

Analyst, BMO Capital Markets Corp.

Q

Okay, great. Thanks for pointing that out. Appreciate it. Congratulations on a great quarter.

Rejji P. Hayes

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

A

Thanks.

Operator: Our next question today comes from Jonathan Arnold with Vertical Research Partners. Please go ahead.

Jonathan Arnold

Analyst, Vertical Research Partners

Q

Hi. Good morning, guys.

Patricia K. Poppe

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

A

Good morning, Jonathan.

Rejji P. Hayes

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

A

Hi.

Jonathan Arnold*Analyst, Vertical Research Partners*

Q

Rejji, could I just ask you to give us a little bit more of a sense of the sort of trajectory that you've seen on the sales in different classes? You're obviously showing this year to-date we have the second quarter in the release, and then you made some comments about July sort of trending better I think before we talk about the weather. Just a feel for kind of how maybe the sort of latter part of this period is looking relative to the Q2 average?

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

A

Yeah. So I would say it's been a very nice progression. If you think about the months in Q2 obviously April, I would say represented the bottoming out. And so, as we highlighted in our Q1 call where we had pretty good visibility on April, we were down about 20% to 25%. And then as we progressed into May and June, we saw a very nice progression as the state reopened. And so, first, you had the industrial sector start to come back around mid-May and then non-essential retail shortly thereafter. And so with the gradual reopening of the state, we're now seeing C&I levels really come in.

And so to give you a data point, for June for commercial, we were about 9% down and we were basically 20% to 25% down in April. So, there's been a nice recovery. And the July trends at this point, it's early days and so I really try not to overreact to smart meter data, but we are looking at about 90% to 95% of pre-pandemic levels for our commercial and industrial sales. And so, there's been a very nice gradual recovery month-over-month over the course of Q2 and now into July. And so, we're cautiously optimistic and you can see that reflected in the full-year forecast. But needless to say, we plan conservatively and so in the event there is a double dip twin peak whatever you want to call it, we're going to make sure we have enough cost savings and other sources of contingency to mitigate that risk. Is that helpful, Jonathan?

Jonathan Arnold*Analyst, Vertical Research Partners*

Q

That's great. Thank you for that. And then just on the – there was a number of mentioned of \$65 million on cost saving, and I think it was Patti's prepared remarks that was incremental to what you've delivered in first half. But just could you just tie that \$65 million back to what you're showing on slide 12 for example, where is that?

Patricia K. Poppe*President, Chief Executive Officer & Director, CMS Energy Corp.*

A

Yes, Jonathan, that is embedded in the \$0.19 year-to-date savings. But part of the \$65 million will carry through and be realized as the year progresses. So, they're really sort of apples and oranges. But let me be clear about a couple of things. \$65 million is definitely not the finish line. And again, as you've noted, it doesn't reflect all of the year-over-year savings year-to-date. The team has identified \$65 million in operational cost reductions so far this year. And so, when we add-in other year-over-year additional non-operational savings that's again what gave Rejji's point about \$0.19 year-to-date. But again, that's not the full-year number and it is a little bit apples and oranges.

But one of the things to remind you is that our best ever performance was \$0.15 for a full year, we talked about that in Q1. And so you can see why we're so proud of this team and why I'm glad that we started preparing for this year four years ago when we launched the CE Way. You can't make a friend when you need one and it takes time. And so, I'm grateful that we are not launching a cost savings program this year. We are relying on our friend, the CE Way, and she is delivering record levels for this year right on time. So I'd be happy to give some additional

color to that but just like the story of the month that literally is happening all over the company and it's been four years in the making so proud of the team.

Jonathan Arnold

Analyst, Vertical Research Partners

Q

Great. Thank you very much.

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

Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

Q

Hey. Good morning team. Congratulations on continued success and same on the CE Way.

Patricia K. Poppe

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

A

Thanks.

Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

Q

But if I can perhaps start with the last question left off. Can you talk about how much contingency you have left in your program? Obviously I imagine you didn't even prepare for a second quarter results the way that the July weather has trended already has shifted to me and your overall expectations for contingency even relative to the \$0.10 that you lay out for the back half of the year. So can you talk about how this even positions you into 2021 based on what even your disclosing here if that's a fair way to ask the question as well?

Patricia K. Poppe

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

A

Yeah. It's a great question Julien because we're thinking about it all the time. Rejji talked about the \$0.10 and so that's sort of in our pocket in the event of greater risk as the year progresses, but we're always redeploying cost savings back into the business, so it's never a question of what's sustainable for us or whether we're constantly finding those savings, we are constantly eliminating waste and then redeploying those savings as needed.

What's cool about these smaller savings and the way we do it is it gives us optionality. We'll improve the number of miles trimmed for example per dollar or reduce the cost per vintage service replaced. But then if we can trim more trees or replace more services we will – whether that's in the current year because we've got favorability or in the future year because in fact we pull ahead work. So we've got \$0.19 of year-over-year cost savings or about \$75 million, which again that's not an accident. We're in the process of planning for 2021.

But the key is like every year we maintain a significant amount of flexibility to manage our business to meet both the commitments to customers and to you, our investors and great analysts like you Julien. We ride this rollercoaster so that no one else has to, everyone else all of you get to count on those consistent predictable outcomes because we're making those choices year-in and year-out.

So now when we look at what we've achieved year-to-date and expect for the rest of the year quite a bit of that can carry over into next year. But again, we always fine-tune and in a particular year we align the plan also to our

what's in rates. And so, we're just continuing to conclude our rate cases which we'll be able to align with our approved plans and then our cost savings can be deployed as required.

Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

Q

Excellent. Absolutely. Thank you. If I can pivot a little bit more to the strategic question here. Obviously you guys are getting deeper into the contracted wind side outside of rate base. Can you just speak a little bit more to how you see that business evolving and capital commitments within that? And maybe if I can ask it this way, how do you think about that as a percent of the total growth over time in the 6% to 8% or is this really kind of supplementary, complementary, however you want to think it or frame it. But curious just given how large this initial investment is on the platform side.

Patricia K. Poppe

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

A

Great question. Great question Julien. I'll start, and then, I'll let Rejji add some more of the additional details. There's key criteria for us as we look at these opportunities. They're always opportunistic. Given the market conditions, given the demand, we need to make sure that three things are true. Number one, that they're customer-driven. We aren't doing one-off auctions to acquire assets. We're not way back in the development phases of projects. We're working with customers to have a repeatable business. And so for the example of Aviator, it wasn't in auction. We knew the developer. And these customers have a desire to grow their renewable energy and we're in a great position to further those needs. It's a key component of the planet part of our triple bottom line.

Number two, they have to have utility like or better returns. Look, our utility business has a lot of demands for capital. It's got a lot of opportunity for growth. So, a project like Aviator has to compete with other utility projects. Given that the bulk of our growth for the company is driven by the utility, these projects have to be really good for them to get a yes from us here.

Number three, they need to not add risk to the consolidated business. So, this project, for example, has two high-quality creditworthy off-takers. You saw in the press release, McDonald's and Facebook, the term of the PPAs are greater than 10 years. So, it's a good example of an opportunistic project that came to us because we've got a reputation of being able to close the deal and operate it well, and when it meets that criteria, then we continue looking at it.

And so, when we think though about the long-term growth of the company to your question about the role it plays in six to eight, the Enterprises business plays about 5% of our earnings now. We don't expect to have non-regulated growth beyond that 10% of our total company portfolio. So, the bulk of our growth is the Utility, that's our bread and butter. That's what we focus the bulk of our time on, but where Enterprises can grow with the utility doing what we do well which is operate renewable projects, and we serve customers well then it's a nice complement to the – and a portion – a piece of that 6% to 8%.

Rejji P. Hayes

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

A

Yeah, Julien, the only thing I would add to Patti's good comments is, Patti mentioned in her prepared remarks that there was a slug of tax equity and that was not an insufficient slug. And so, if you look just on the surface and see 525 megawatts and then apply what you think is a standard cost per kilowatt, you could think the investment is quite sizable. But again, there is a pretty material slug of tax equity, and we're also a joint owner of the common

equity for lack of a better characterization. And so, this really is not all that significant, an investment from our perspective, in fact it's quite comparable to the size of investment we did for Northwest, Ohio a year-and-a-half ago. And so, we are being as Patti noted opportunistic, we're trying to hit singles and doubles here. We are not swinging to the fences, and so we'll approach this as the type of business where again it can be, I think to your words, it's complementary or supplement our portfolio. But again, we're not [trying for] triples and homeruns here.

Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

Fair enough. I'll leave it there. Thank you guys.

Q

Patricia K. Poppe

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

Thanks Julien.

A

Operator: And our next question comes from Andrew Weisel with Scotiabank. Please go ahead.

Patricia K. Poppe

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

Good morning, Andrew.

A

Andrew Weisel

Analyst, Scotia Capital (USA), Inc.

Thanks. Good morning, everyone. I wanted to ask a little bit more about the financing year-to-date and page 15, it looks like you're well ahead of the initial plan and a lot of that seems like it was done since the 1Q call. So it wasn't purely a reaction to the uncertainties around COVID I'm sure. Can you just walk us through why you are so aggressive with the debt, what your plans are for those team loans and how you think about the liquidity at over \$3 billion?

Q

Rejji P. Hayes

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

Yeah. So Andrew, I'll take the last part of your question first. I mean at the end of the day we do not intend to have a bunch of lazy capital sitting on our balance sheet. And so, we fully expect the \$3 billion to come down quite a bit by the end of the year. But again, as I mentioned in my prepared remarks, we are biasing towards liquidity management, because the virus isn't yet contained. And so in the event there's increased or continued volatility in the capital market, we want to just make sure we have sufficient liquidity.

A

Now as you think about the components on page 15, you can see from a first mortgage bond perspective at the OpCo, we're well in excess of what we had in plan at \$1.2 billion. But I'll just note that there are a couple of maturities that we're addressing that will make those numbers look a bit more normalized. And so, we have a term loan that you can see that we have yet to repay again in the interest of just erring on the side of extra liquidity particularly given the relatively low cost. And so that's a \$300 million term loan. We also pulled forward a maturity at the OpCo in 2022 that had a five handle and so a very nice bit of positive carry in that trade.

And so you take the two of those together that year-to-date first mortgage bonds issued to-date, it looks much more normalized relative to what we have in plan. And again thinking about that same logic at the HoldCo, we did the hybrid which is a little higher than what we anticipated, but that's again, we have some flexibility in prepaying a

term loan before it comes due or as it comes due. So I wouldn't overreact. We are just being opportunistic and really again erring on the side of liquidity. But again by the end of the year I'd be surprised if we were at that level of excess liquidity again by year-end, particularly given the capital needs we have at the utility.

Andrew Weisel

Analyst, Scotia Capital (USA), Inc.

Q

Okay. Great that's helpful. Next just to be very clear on the page 12 the waterfall for the six months to go, that risks and opportunity box obviously you're showing somewhere between \$0.02 and \$0.09 of negatives versus \$0.20 of positives. That I believe that the minus \$0.07 to minus \$0.03 you have for cost savings usage and other. Am I reading this right that you're basically saying that negative is kind of what you're expecting from COVID, but you have \$0.10 of additional cost offset and \$0.10 of July weather that should help you out. And if that's the case, if nothing else changes, would you be able to reinvest those \$0.20 by year-end?

Rejji P. Hayes

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

A

Yeah. The quick answer is we feel quite good about the contingency that we've expect to accumulate over the [course of the year] particularly when you take July weather [into account. So] you have effectively some excess contingency based on the numbers we're seeing. What I'll note that just for a little clarity is that cost savings, [Usage and other bucket] there's a lot more in that than just the items we've enumerated in that table. And so, it's a hodgepodge of things. But we just highlighted here what we think is most noteworthy. And again we've taken into account in this math in the table a stress scenario which obviously isn't our base case, but we're saying even in the event that we start to see margin erosion for commercial and industrial like we highlighted on page 11 [even in that stress or downside case] we still think that coupled with [incremental] costs that will likely come again if we have a second wave we feel like we have generated or will generate enough cost savings as well as with the July weather, where we have sufficient contingency, but Patti if you would like to add to that by all means.

Patricia K. Poppe

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

A

Well, I'll just get to the latter half of your question, Andrew. We expect that we'll be able to redeploy funds this year for the benefit of customers and we're always planning for next year. So we just want to make sure that we always and we have great capability to deploy those funds as required and pull-ahead expenses and so we've got ample time between now and year-end to make those adjustments. And we've had some success with some regulatory treatment near year-end where we can push forward some programs and some benefits for customers into future years. And so we really think that there's a good opportunity for us to leverage any favorability that we would have this year to serve customers and investors.

Andrew Weisel

Analyst, Scotia Capital (USA), Inc.

Q

Good position to be and I'm sure your trees will be well trimmed by year-end?

Patricia K. Poppe

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

A

That's certainly – our customers love that and so do we.

Andrew Weisel

Analyst, Scotia Capital (USA), Inc.

Q

Great. One last one if I can on the rate cases. Your neighbors in Michigan recently settled their natural gas case and deferred the electric case by a year. I know that no two utilities or rate cases are the same. But do you see potential for something similar for your rate cases or are there certain factors that might preclude taking actions like those?

Patricia K. Poppe

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

A

It is a creative option leveraging those deferred income taxes and so certainly we would be open to considering it. We'll keep looking at it. We've got good alignment with the staff on both our electric and our gas cases, they're both in-flight as we speak. And so, we would look at it. But I will remind you that we don't object to annual filings for two reasons. Number one, it allows us to flex the capital plan, all of our rate cases are forward-looking, and so as needs of the system change, as conditions emerge and because we don't have a big bet capital plan, we can modify our plan on an annual basis to best reflect the greatest needs for customers and so that's important to us.

But I'd also say that our rate cases are also opportunities to pass along cost savings to customers. And so when we think about the last seven years for examples, we've invested \$15 billion of capital and our electric bills are down 5% and our gas bills are down 30%. I mean, this is just – that's the math that backs up our business model that says we can invest capital, particularly capital that saves customers money and the transitions to cleaner energy and the reduction of these large PPAs that are coming forward, skipping rate cases actually prevents us from passing along savings to customers. So we certainly are taking a look at the deferred income tax and perhaps delaying a case, but it isn't necessary for us to protect the affordability for our customers.

Andrew Weisel

Analyst, Scotia Capital (USA), Inc.

Q

Great. Thank you so much.

Patricia K. Poppe

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

A

Yeah. Thank you.

Operator: And the next question today comes from Shar Pourreza with Guggenheim Partners. Please go ahead.

Patricia K. Poppe

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

A

Good morning, Shar.

Constantine Lednev

Analyst, Guggenheim Securities LLC

Q

Hi, good morning. Hi, good morning. It's actually Constantine here for Shar. Congrats on the great quarter.

Rejji P. Hayes

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

A

Thank you.

Patricia K. Poppe*President, Chief Executive Officer & Director, CMS Energy Corp.*

A

Thanks.

Constantine Lednev*Analyst, Guggenheim Securities LLC*

Q

A lot of questions have been already answered, and it's been very comprehensive. So just going back to the Aviator project, just wanted to kind of get some thoughts on kind of given that this acquisition was prompted kind of relatively outside of plan I guess. Does that imply returns above utility ROEs and kind of how does this acquisition sit within the current CapEx plan?

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

A

Yeah, so I can take that Constantine and thanks for the questions. So as Patti noted, I mean we evaluate all of these projects when we're looking at capital allocation across the company because it is quite competitive internally. We make sure that the returns are comparable to those of the Utility, if not better. And so, we feel quite good about the economic profile of this project. And again as Patti noted, we also want to make sure that we're not ascribing a lot of terminal value to these types of projects and that there is very good creditworthy off take, and we feel like this project checks those boxes. Now we do not conflate utility capital investments with these types of projects, so the \$2.25 billion that we highlighted in our Q4 2019 call, we're still on track to deliver that. And this is again opportunistic, it's not changing our financing plan as Patti noted. And so, we feel like this is a nice opportunity to take advantage of. It's not a triple or a homerun, it's a single or double and this aligns with how we'd like to evaluate and take on projects like this going forward.

Operator: Thank you. Our next question comes from Michael Weinstein with Credit Suisse. Please go ahead.

Michael Weinstein*Analyst, Credit Suisse Securities (USA) LLC*

Q

Yeah. Hi, guys.

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

A

Hi, Mike.

Patricia K. Poppe*President, Chief Executive Officer & Director, CMS Energy Corp.*

A

Hi, Mike.

Michael Weinstein*Analyst, Credit Suisse Securities (USA) LLC*

Q

A lot of my questions were answered, but I wanted to go to slide 21, just the NOLs and credits that are increasing over time. Is that because you have more renewable projects that you're expecting to bring in over time or is that just from the existing project portfolio?

Rejji P. Hayes

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

A

Yeah. It's more the former, I mean we've always had a good balance of NOLs and credits, but we do see a little bit of accretion in that balance because it's on the renewables we expect, so that's largely what that is, Michael.

Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC

Q

So, I mean that would imply that you're probably not going to have much of a tax appetite and you would probably have to continue using tax equity as you invest in these renewables?

Rejji P. Hayes

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

A

Yeah. Where we sit at this point, we don't expect to be really a meaningful federal taxpayer until around 2024. And so, our sense is that tax equity will likely be this financing vehicle du jour for some time.

Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC

Q

I mean is it possible – could you give us a sense of the cost that you're seeing for it out there, where's the...

Rejji P. Hayes

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

A

Yeah. It's...

Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC

Q

...cost of capital?

Rejji P. Hayes

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

A

Yeah. I'll say it's attractive as you know. Obviously, it's not as cheap as a plain or common debt financing, but also it's not as expensive as traditional common equity. And so, it's in between and we think the rates that we've negotiated for this particular transaction are quite competitive.

Michael Weinstein

Analyst, Credit Suisse Securities (USA) LLC

Q

Right. So I mean you're not seeing for instance a decline in investor appetite due to your lower tax rates or...

Rejji P. Hayes

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

A

No, we've actually – like I said, there's a pretty meaningful slug of tax equity that's been in this project, and for our other projects that we evaluate from time to time, we haven't seen any contraction in the market for tax equity, but we'll see. I mean obviously if there's another bit of volatility in the market, because there's a double dip or twin peak whatever you want to call it, that market may back up, but for now it's been quite accommodative.

Michael Weinstein*Analyst, Credit Suisse Securities (USA) LLC*

Q

Okay. And one last question. I mean with the increase in NOLs that you have – in tax credits that are on slide 21, how many more projects do you think that sort of implies slide 21?

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

A

Yeah. I wouldn't say that – I wouldn't say our financial planning is that prescriptive again we intend to be opportunistic on these types of projects. And so, we're assuming I think a modest level of additional project flow, and that's where you see again a modest bit of credit accretion. So again, we're not swinging for the fences here and assuming that there's going to be material increase in our NOLs or our credit specifically because of projects like this.

Michael Weinstein*Analyst, Credit Suisse Securities (USA) LLC*

Q

Got it. All right. Thanks a lot, Rejji. Thanks a lot, Patti.

Patricia K. Poppe*President, Chief Executive Officer & Director, CMS Energy Corp.*

A

Thanks, Michael.

Operator: And our next question comes from Jeremy Tonet with JPMorgan. Please go ahead.

Jeremy Tonet*Analyst, JPMorgan Securities LLC*

Q

Hi, good morning.

Patricia K. Poppe*President, Chief Executive Officer & Director, CMS Energy Corp.*

A

Hi, Jeremy.

Jeremy Tonet*Analyst, JPMorgan Securities LLC*

Q

Just one question. Yeah. Good morning. Just one question for me here. With the bank side, just wanted to see if you could provide a little bit more color on how things shaped up for the second quarter relative to your expectations there. And just general thoughts and trends through the balance of the year on the bank side would be helpful.

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

A

Sure. I think the quick answer is the bank is on track. And so, we've guided to \$0.18 to \$0.20 for the full year, and they are on course to deliver that. Now you'll see for the quarter, for the period-over-period comp, they were behind by about a penny \$0.01 that was per plan, because they started the year quite well and obviously we've implemented the new accounting standard current expected credit losses and so that has a material impact on the provision for loan losses. And so when you comp it to 2019, you may see in the odd quarter a little bit of

leakage quarter-over-quarter, but we're fully on track, we've continued to see very good origination volume across most of the projects that we provide financing for. And I think June was a historical month of loan approvals and loan originations, and so we are trending on plan and really haven't seen much backup but for I'd say April for a little period of time.

Jeremy Tonet

Analyst, JPMorgan Securities LLC

Q

That's very helpful. Thank you for taking my question.

Rejji P. Hayes

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

A

Thank you.

Patricia K. Poppe

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

A

Thanks, Jeremy.

Operator: And our next question comes from Travis Miller with Morningstar. Please go ahead.

Travis Miller

Analyst, Morningstar, Inc.

Q

Good morning, everyone.

Patricia K. Poppe

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

A

Good morning.

Rejji P. Hayes

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

A

Hi, Travis.

Travis Miller

Analyst, Morningstar, Inc.

Q

Not to belabor this year, but going back to slide 12 again and just want to triple check I'm understanding. So the \$0.19 you've saved so far this year and then going over to the right side the \$0.10, are those the same number such as when you talk about redeploying operating costs or any other savings, but the \$0.19 would then go to \$0.10 for the full year or is there something else going on there other than I'm not understanding?

Rejji P. Hayes

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

A

Yeah. So just to be clear Travis, so in the first half of the year, that \$0.19 remember, that is a comp relative to 2019. And so, you have a few things flowing through that some non-operating savings, you can see some flex and work optimization. The \$0.10 that you see in the right-hand side that aligns with the \$65 million that Patti noted or at least a good portion of it that we have identified and realized to-date. And so what you see in the year to go is really the vast majority of the \$65 million of operating cost savings that we've delivered through the CE

Way, so the lean operating system, supply chain, a little bit of work mix that was favorable as we take O&M resources over to capital projects, particularly during the shoulder months and we were quite effective at that. And so that \$0.10 is largely the \$65 million again that Patti noted in her prepared remarks.

Travis Miller

Analyst, Morningstar, Inc.

Q

Okay, okay, very good. And is there a scenario where if you continue to have the favorable weather that you could actually have that number come down such that you pull ahead more cost that you might have incurred in 2021 or 2022 as you have in the past years?

Patricia K. Poppe

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

A

Yeah, that's great. That's right Jeremy or Travis. We definitely pull ahead those savings and when we can prepare for 2021. And so to get really specific the \$0.19, plus the \$0.10 that's all opportunity. And so when you look at our slide 6, which is what I sometimes refer to as the swish-swish slide, it's the rollercoaster slide. We will as the year materializes have options about how to deploy those savings whether they have to the benefit of this year or to the benefit of 2021 and 2022. So we're definitely in forward planning right now for next year on how best to derisk 2021 with the upside that we've identified through these cost savings.

Travis Miller

Analyst, Morningstar, Inc.

Q

Okay. Great. I appreciate, that's all I have.

Patricia K. Poppe

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

A

Yes. Thanks.

Rejji P. Hayes

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

A

Thank you.

Operator: And the next question comes from Durgesh Chopra with Evercore ISI. Please go ahead.

Durgesh Chopra

Analyst, Evercore Group LLC

Q

Hey guys, good morning, lot of good discussion. I just have one question going back to these O&M savings. How should we think about how are they handled in your ongoing rate cases, as we're – so Patti you mentioned, 2021. So as we think about 2021, should we assume that this will be reflected in your rate plans, in other words some of this or most of this goes back to the customers, how are you sort of dealing with that in your ongoing rate cases?

Patricia K. Poppe

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

A

Yeah. Because we have forward-looking rate making, we always align our rates and our O&M. So internally when a rate case is approved, then we align the spending to match it. And so when we have favorability or we have cost savings that are in addition to what's in a rate case in year, then in that current year we may have a short-term benefit of that, but that's why we'll take those short-term benefits and reinvest them, for example trim more

trees or do more maintenance or pull ahead some expenses from next year, but we're always because of that forward-looking test year, we really are able to align our spending and our rate outcomes.

Durgesh Chopra

Analyst, Evercore Group LLC

Q

Understood. Appreciate it guys. Great quarter. Thank you.

Rejji P. Hayes

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

A

Thank you.

Patricia K. Poppe

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

A

Thank you.

Operator: And ladies and gentlemen, this concludes the question-and-answer session. I'd like to turn the call back over to Patti Poppe for final remarks.

Patricia K. Poppe

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

Thank you, Rocco. Great to be with everyone today. Thanks so much for tuning in and please be safe and be well. I hope you and your families are able to come together and be healthy during this very challenging time. We do look forward to seeing you face to face some day. We can't wait. And we miss you all. Thanks so much for tuning in.

Operator: Thank you. This concludes today's conference call. We thank you everyone for your participation. Have a great day.

Editor's Note: Text in [] was added at the request of the company, to provide clarity on certain statements that were clearly audible on the audio.

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