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CMS Energy Corp. (CMS)

Q3 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to the CMS Energy 2020 Third Quarter Results. The earnings 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 12:00 PM Eastern Time, running through November 5. 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 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 measures 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 good morning, everyone. We hope you're all doing well and thanks for joining us today for our third quarter earnings call. This morning, I'll share our financial results and outlook for the first nine months of the year. I'll also introduce our 2021 guidance, review our capital plan, which supports our decarbonization efforts, and I'll touch briefly on our regulatory calendar. Rejji will add more details on our financial results and, as always, we'll close with Q&A.

We are happy to report that, for the first nine months of the year, we delivered adjusted earnings per share of $2.11, up 17% from the same period in 2019. Our year-to-date results were driven by our team's best-in-class cost management through the CE Way.

Given the risk mitigation in place for this year and our visibility into next year, we're pleased to reaffirm our adjusted guidance for the year of $2.64 to $2.68 with a bias to the midpoint and introduce our adjusted guidance for 2021 of $2.82 to $2.86 up, you guessed it, 6% to 8% from the midpoint of our current guidance range.

We continue to target long-term annual earnings and dividend per share growth of 6% to 8%, again, with a bias to the midpoint which, I will remind you, reflects both consistent and industry-leading growth. We remain grounded in our commitment to the triple bottom line of people, planet, and profit. We're committed to diversity, equity and inclusion and are doubling our spend on diverse suppliers over the next five years after having tripled our spend over the last seven.

Just last month, the Governor of Michigan announced the state's goal to reach carbon neutrality by 2050, which supports our Clean Energy Plan and all the actions we've already taken to protect our planet and reduce our carbon footprint. And before moving on, I want to highlight the over $100 million in cost reductions realized year-to-date through the CE Way. This is a true testament to the maturity of our CE Way mindset and just what this team is capable of when called to action.

My quick story of the month is from our team at Filer City generating station who identified a shorter route throughout the building to perform operator rounds. This team eliminated over one hour or 2,500 steps on each shift. The annual mileage savings are equivalent to the distance from the southern border of our state all the way to the Mackinac Bridge. Now, that's something to write home about. Step by step, minute by minute, dollar by dollar, it all adds up to the CE Way. Our team has proven that we can put the pedal to the metal on cost performance to deliver the required results now and in the future.

Our commitment to the triple bottom line shines through in our capital investment plan that focuses on enhancing the safety and reliability of our system, while keeping customer builds affordable, protecting our planet, and delivering for our customers and investors as we move toward net zero.

We benefit from a regulatory construct in Michigan and a statute that allows for the financial incentives above and beyond our current authorized ROE. These include: a 20% return on our energy efficiency spend as we help customers reduce energy waste and lower their monthly bills; a financial mechanism equal to our weighted average cost of capital on new renewable PPAs; and a premium ROE of 10.7% on renewable investments to meet our 15% renewable portfolio standard in Michigan; all of which illustrate that we can deliver reliably on the triple bottom line. What's good for our people and the planet can also deliver top tier profits. It's no wonder we are considered a leader in ESG.

By 2024, we will have added 1,100 megawatts of solar to our system on top of 1 gigawatt of RPS renewables since 2011. Our Clean Energy Plan calls for a total of 6 gigawatts of solar additions to our system or $3 billion to $6 billion of investment opportunities through 2040. As we move forward and file our next IRP in 2021, we'll look to realize some of this opportunity and pull it into our plan as utility scale renewables continue to make triple bottom line sense.

Our commitment to serving all our stakeholders has not gone unnoticed. We have been recognized nationwide for our good efforts and slide 7 celebrates that recognition, including that, as of 2019, CMS Energy received an MSCI ESG rating of AA.

Moving on to our regulatory calendar, we settled our gas rate case last month and agreed not to file another gas rate case before December of 2021. We expect an order in our electric rate case and an outcome on our securitization filing by the end of this year. Following that, we will not have any general rate case decisions impacting our 2021 earnings, which provides further visibility and economic certainty throughout next year.

Turning to my favorite slide, slide 9 reminds you of how we manage the work intra-year to mitigate risk in future years and deliver the financial results you've come to expect. So, in a year like this year when we have seen an enormous amount of headwinds, our team hunkered down and exercised our lean operations to find and eliminate waste at every level.

To-date, we've realized over $100 million in savings through these efforts. And I am so very proud of all my co-workers for demonstrating world-class cost performance and enabling us to deliver savings through the CE Way so that we can continue to deliver a world-class customer experience and consistent industry-leading financial performance.

Now, you might be wondering if that $100 million of savings would make us deviate from our bias toward the midpoint of the guidance range. It does not. We're sitting in the driver's seat as we put the pile of savings to work for 2021 and 2022 and begin to de-risk those years. It is precisely this cost discipline which prevents a roller coaster for you and instead delivers the consistent top tier annual growth rate every year, not just the easy ones 7% year after year after year.

We wrote the book on adapting to changing conditions and delivering results in the current year that enable next year's success and the year after that. We ride the roller coaster so that you can count on the predictable EPS and dividend growth you expect.

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

Rejji P. Hayes

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

Thank you, Patti, and good morning, everyone. In the third quarter, we delivered adjusted net income of $221 million, which translates to $0.77 per share. Our third quarter results were $0.04 above our third quarter 2019 results, largely due to cost performance, constructive regulatory outcomes, and favorable weather at the utility. It is worth noting that our adjusted earnings for the quarter exclude select non-recurring items primarily related to retention costs associated with the pending retirement of our Karn coal facilities which commenced in the fourth quarter of 2019.

Year-to-date we have delivered adjusted net income of $605 million or $2.11 per share, up 17% from the same period in 2019. As Patti noted, we're trending well in large part due to our company wide efforts in cost reduction, largely driven by the CE Way.

As you know, we continue to monitor our electric sales and utility closely given that the pandemic is not yet fully contained, and we remain encouraged with the trends we've observed across each customer class over the course of 2020.

On slide 11, you'll see that weather normalized electric sales were up roughly 0.5% for the quarter versus the third quarter of 2019 with the residential segment continuing to lead the way, up 6% for the quarter versus the comparable period in 2019. The commercial and industrial segments continue to recover, down 4% and 3.5% respectively versus the prior year, which aligns well with the phased reopening of Michigan's economy. As noted in the past, the weather normalized industrial and total electric sales I just quoted exclude the effects of one large low-margin customer.

As we look ahead to the fourth quarter and 2021, we're cautiously optimistic about the normalized trends we've seen so far in 2020 with normalized load for the residential segment continuing to outperform expectations which, I'll remind you, offers a higher margin than those of our commercial and industrial segments and has historically represented over 60% of our customer contribution.

Turning to our waterfall chart on slide 12, you can see the current and expected drivers of our year-over-year financial performance. As mentioned, cost performance continues to be a key factor to our financial results for

2020, and as Patti noted, we have delivered over $100 million of savings to-date, the vast majority of which is represented in the $0.28 per share of cost savings highlighted in the table on the left-hand side of the page. And more than offset the pandemic related expenses incurred to-date and mild weather experienced in the first quarter.

Rate relief, net of investments, and less storm activity relative to the comparable period in 2019 provided $0.13 and $0.05 per share of positive variance respectively in the first nine months of the year. With three months to go in 2020, we'll plan for normal weather as we always do, which implies $0.02 per share of negative variance versus the prior year, and is more than offset by the constructive outcome we achieved in our gas rate case settlement which equates to $0.07 per share of pickup in the fourth quarter.

Needless to say, we'll remain paranoid by maintaining sufficient contingency to mitigate the inherent risks to our business such as weather and storms as well as a potential resurgence of the virus in Michigan. And we'll concurrently reinvest any estimated excess contingency to provide near and long-term value to our customers, co-workers, and investors.

As we look out longer term, even with our significant success reducing costs in 2020 and in years prior, there are still ample opportunities to reduce cost to create headroom in customer bills for future capital investment. As a reminder, the expiration of our large PPAs and the retirement of our coal fleet offer sustainable cost reduction opportunities over the next several years.

We'll also realize capital enabled savings as we modernize our electric and gas distribution systems and we'll continue to reap the benefits of the ongoing maturation of the CE Way. You can see the long-term effects of our historical cost reduction efforts in the chart on the right-hand side of slide 13 which highlights that we've kept customer bills low on an absolute basis and relative to other household staples in Michigan from 2007 to 2019 while investing roughly $19 billion of capital in our gas and electric systems over that timeframe.

In fact, in 2019, our utility bills made up approximately 3% of household expenditures in Michigan, down a full percentage point from the 2007 level. We're often asked whether we can sustain our consistent industry-leading growth in the long term given the widespread concerns about economic conditions or potential changes in fiscal, energy and/or environmental policy. You name the risk and I can assure you we've heard it before.

Well, the reality is that change is the one constant that you can count on in this business. And we'll continue to adapt to the inherent risks and other external factors that may impact our business and still deliver for our customers, co-workers, the planet and our investors as we have for almost two decades now as illustrated on page 14.

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. Simply this, our model holds together well and that's why the thesis remains strong. With that, Rocco, please open the lines for Q&A.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question today 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

Hey. Good morning, Jeremy.

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

Good morning, Jeremy.

Jeremy Tonet
Analyst, JPMorgan Securities LLC
Q

Just want to start off if you might be able to provide us some thoughts on what the next IRP filing could look like and any more color if you seek opportunities to further accelerate coal retirements, integrate renewables more and include storage as part of the resource mix there?

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

Yeah, Jeremy. Great question. We are excited about our next filing of our IRP which will be mid-year 2021. We're still in the modeling phase. So, no early reads just yet. Though I will say we're hopeful that, in the outer years in particular – in our first filing, we had about 450 megawatts of storage. I would love to see more storage in the outer years.

We were requested in our settlement and agreed to study earlier retirements of some of the other coal plants. But, right now, our plan remains the same, but certainly when we know, we'll let you know. And we're excited about the potential of that new IRP and what it offers to benefit the planet and the cost structure and our customers. It's really a great time in this business.

Jeremy Tonet
Analyst, JPMorgan Securities LLC
Q

Got it. Makes sense. Thanks for that. And then, separately, just wondering if you could provide a bit more detail on the benefit that the 6% uptick in residential sales has had on the electric margins and, really, just with this increased residential skew in customer mix in sales and the cost cuts you've achieved so far, just wondering how we should think about how that might impact the upcoming rate filing.

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

Yeah, Jeremy. We had talked about in the past the impact that the residential segment has on our electric business. And so, the general rule of thumb if you're thinking about the annual impact is a 1% change in residential equates to $0.03 of EPS accretion, and that's symmetric, so up or down. And for industrial on the other side, it's about $0.005 for 1% change; commercial is a little closer to residential. So, it does have a pretty good impact.

And as you think about the road ahead, I'll just remind you the electric case that we have pending that has a forward test year which reflects all of 2021. And so, we are contemplating a subsequent file on the heels of this electric rate case. And so that will obviously have an impact on 2022. But if we continue to see a trend like we've seen over the course of this year, it could provide a potential tailwind in 2022.

But we're still in obviously the early stages of our planning process for 2021. But, I'd say, the electric rate case that's pending, the order on that will obviously dictate a lot of our economics going into 2021. And the existing gas settlement that we've already got provides a lot of economics going into 2021. Does that address your question?

Jeremy Tonet
Analyst, JPMorgan Securities LLC

Q

Yes. That's very helpful. Thanks for taking my question.

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

A

Thanks, Jeremy.

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

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

A

Good morning, Michael.

Operator: Pardon me, Michael, is your line is on mute perhaps?

Michael Weinstein
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Sorry about that. Yeah. Here I am. Hey...

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

A

Good morning.

Michael Weinstein
Analyst, Credit Suisse Securities (USA) LLC

Q

...good morning.

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

A

Good morning.

Michael Weinstein
Analyst, Credit Suisse Securities (USA) LLC

Q

I was wondering if you could comment a little bit on whether you might be considering some type of multi-year rate plan going forward. I know you have forward test years, and I know that annual rate cases that worked out well for the company, especially in Michigan, which is a pretty favorable state for investors. But is there any – has there been any consideration for some type of multi-year situation going forward?

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

A

Yeah. You know, Michael, you make a really good point in the fact that we do have forward-looking test years. And so, what we like about our annual filing is, first of all, just because we file a rate case doesn't necessarily mean customers' bills are going up. And as Rejji described in his prepared remarks, we can do capital investment in this business model of ours where our cost savings are passed along to customers has to occur in those proceedings.

And so, our annual filing provides us two, what I think are, big advantages, particularly given the certainty of the regulatory environment here in Michigan, one that we have alignment with the commission before we spend it. So we have no risk post a rate order that we'll have disallowances. We have alignment on the work that we're going to do. We have alignment on the investments that we're going to make. And so that is a real certainty going forward.

But, two, it also allows us to adjust the plan as conditions change, and we can pass along the cost savings that the team achieves while we're adjusting those plans. And so, we can build a budget, we can build an operating plan that matches an agreed upon framework with the commission. And so, I think that's good regulation. I think that's the right kind of transparency, the right kind of certainty. And yet, at the same time, demonstrates agility as we move forward and conditions change around us. I do think it's in the best interest of our customers.

Michael Weinstein
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. And also for the DIG plant, DIG, as you go forward with the LCR upheld by the Michigan Supreme Court, do you think you'll be trending more towards the upper end of that opportunity range of $3 to $7.50 going forward?

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

A

Yeah, exactly, Michael. In October 2021 (sic) [October 2020], for example, we secured some contracts for planning year 2024 and 2025 and 2025 and 2026 at the $4.25 a kilowatt month. We secured about 30 megawatts. So, we're definitely seeing that pickup that wasn't all the way at CONE. But, with the LCR, there's only a few places within Zone 7, which is Michigan's Lower Peninsula, where an alternative energy supplier can secure that capacity and DIG is one of those places. And so, we've absolutely already seen a little bit of that upside.

Michael Weinstein
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Great. And I guess that's about it for now. Thank you very much.

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

A

Great. Thanks, Michael.

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

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Hey. Good morning, guys.

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

A

Good morning, Shar.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Just a couple questions here. So, just on equity, you obviously had – you didn't have any equity in 2019 that was deferred to 2020. And then, $250 million is planned for this year. Just remind us what is your new 2021 guidance in terms of equity? And how we think about sort of the perpetual need, is it – should we just assume around the under $150 million per year level set for 2020 excluding 2019 that you deferred into 2020?

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

A

Yeah. So, Shar, just to be clear, we haven't provided a point of view based on our latest modeling for equity needs in 2021 and beyond. But I think the working assumption that we provided as we rolled out our five-year plan, in the first quarter of this year, we said $250 million this year as you rightly noted, then we set run rate $150 million per year and that presupposed a $12.2 billion five-year capital plan at the utility.

And so, as you know, we provide new five-year look in Q1 of every year on our fourth quarter earnings call. And so we'll recalibrate. We'll look at what the capital plan looks like from 2021 through 2025. And if that dictates additional equity needs then we'll adjust accordingly. But, I will say this, I feel very confident, and this has been our general rule of thumb, that we will be able to continue if we need to increase the equity needs to align with the capital plan, we should be able to continue to avoid block equity and really just be able to execute our equity needs through our dribble program, which I generally like to think is around 1.5%, 2% of our market cap. So, we feel that the equity needs may change. We'll see where the math ends up in our five-year plan, but I don't expect us to be issuing material amount of equity every year going forward.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Got it. Got it. And then just on the cost savings, you called out a $100 million savings in 2020 actively being reinvested. How much of that is the first mortgage bonds and opportunistic refinancing year-to-date? And how do we think about sort of that being one-time versus sort of perpetual in nature? What types of things are you learning as you move past the crisis stage of COVID?

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

Yeah. It's a great question, Shar. And so I say, generally, when we look at, identified and realized cost savings, there are two classes; they are operating costs savings and non-operating costs savings. What we highlighted in our prepared remarks, and this has been an ongoing theme over the course of this year as well in Q2, the vast majority of the savings realized to-date have been operating savings. There have been some non-operating savings.

So, you probably saw in our waterfall slide that we had $0.04 attributable to benefits. Those are clearly non-operating. And then Sri and the team in Treasury have been really quite opportunistic in executing on very attractively priced financings over the course of this year. I can come back on the exact EPS amount. I think we had about $0.01 or $0.02 of upside this year. And we do anticipate a good portion of that being ongoing and sustainable because the reality is, if you price a bond below plan, particular if it's a refinancing, you'll obviously have those savings over the life of the bond.

Now, obviously, our debt financing need will increase to fund capital. And so, you have some new money in there, but the refis those lower bond financings particularly when we pull forward a bond maturity as we have in the past, those savings you should get for several years.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC
Q

Got it. Perfect. And then just one last one for me on sort of the load growth. You obviously reported very healthy weather adjusted load numbers in the third quarter. Curious on what you're embedding in the guidance for 2021. What are you assuming as far as COVID-related backdrop? I think you kind of slightly alluded to it a little bit in the prepared, but are you assuming sort of a V shape recovery, which is I think what a lot of your peers are saying, or are you seeing sort of a more gradual pickup, like what's kind of embedded in plan?

And then, you touched a little bit on the contingency there. But it seems like from what you're highlighting, even if you see another protracted downturn or even a weakening in the residential market that you have enough levers to offset sort of that headwind. But I don't want to lead the witness, Rejji, so you go ahead.

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

Yeah. So, let me approach that in a couple of ways, Shar. So, first, there are, I'll say, the sales assumptions embedded in the pending electric rate case which will capture all of fiscal year 2021. And so, we're past the evidentiary phase. I don't want to prejudge or foreshadow where the commission may end up, but I think, clearly, there is a change in the assumptions embedded in the rate case. And then what we've observed over the course of 2020 and as we've talked about for the last several quarters now, we are seeing favorable mix in the form of residential in excess of expectations and C&I, I'd say, slightly down.

Now, the variables which could lead to a tailwind in 2021 is clearly residential. We've seen just the sustained level of residential non-weather uptick. And I think it has a lot to do with remote working. A number of companies have sustained that. And we have a sense they may sustain it even post pandemic. And so that could provide a bit of a tailwind going into next year. And then the rate or pace at which C&I has recovered over the course of this year has also been a little bit of surprise to the upside.

And so, going into next year, there's lots embedded in the rate case and so there may be a little bit of upside there. But then if you just think about, okay, now that we're 10 months smarter since we filed a rate case, what are we seeing and how do we think that compares to what we've seen over the course of 2020. And I'll say it's fair to assume that the pandemic started out in the kind of mid-March timeframe in Michigan and we had the shelter in place in late-March. And so, a lot of the effects of the pandemics are flowing through our 2020 forecast.

And so, when you think of the year-on-year comparison, I don't expect we'll see a material bump in residential versus what we've experienced so far in 2020 because, again, a lot of that is already reflected on our numbers. But I do think C&I, we'll see, I think it could be flattish. I hate to put a letter to any type of shape of recovery. I would say the Nike swoosh seems to me to be the most applicable shape. I've also heard people talk about a K shape because you will have some sectors that bounce back quickly and some that do not.

And so, I'd hate to hazard a guess at this point, but I think it will be a gradual recovery and a continued recovery for C&I. Again, we've been surprised at the upside, but the pandemic is yet to be contained. So, we'll obviously plan cautiously as we always do.

Shahriar Pourreza
Analyst, Guggenheim Securities LLC

Q

Terrific. Thanks, guys. Congrats again.

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, Shar.

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

Durgesh Chopra
Analyst, Evercore ISI

Q

Hey. Good morning, team. Just I had two...

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

A

Hi, Durgesh.

Durgesh Chopra
Analyst, Evercore ISI

Q

Hey. Good morning. Two big picture questions. One, election is around the corner, just can I get your thoughts, the opportunities and risks the climate plan and a potential tax change? I appreciate early, but just any thoughts there.

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

A

Yeah. You bet. First at the highest order, as we have always said, we work with everyone. So, we're sure that America will sort out all of this election business. Now, we know, I think, what to expect from Donald Trump and his administration. And that's been working fine for us. If Joe Biden is elected and there's a stronger push for a clean energy transition or a carbon-free electric sector, we have a plan that's pretty aggressive already. We have a plan that gets to net zero by 2040. And so even, when he says 2035 in kind of campaign ads, the idea of it really being national at 2035 seems aggressive, but we could actually work to adapt.

One thing we like to remind people about this is that as we make this clean energy transition and we've been very ambitious, as you know, we've retired 7 of our 12 coal plants, already reduced our carbon emissions by 40%, our net zero plan for 2040 puts us again about a decade ahead of most in the

industry, and so given that, we feel like there's a need for some technology advancements in those outer years and when those breakthroughs occur, and as the costs of solar and potentially storage continues to decline, we'll look forward to accelerating our plans. And we know that that can be good for both – for our triple bottom line; people, planet and profit.

So, we're pretty agnostic on the outcome of the elections. We think there's – our Clean Energy Plan stands on its own. Rejji, maybe you want to talk about some of the tax implications of a Biden administration?

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

A

I'd be happy to. So, Durgesh, as you know, the Biden team has rolled out at least a preliminary look on fiscal policy. And so, what we've seen is a potential increase in the marginal tax rate from 21% to 28%. And since, federal tax reform isn't in the too distant past, you may recall just sort of the puts and takes that we saw there. And so I think, conceptually, you can anticipate that there may be a rate increase. And that's obviously the inverse of what we saw when we went from a 35% tax rate down to 21%.

And so, there would potentially be a rate increase and the Commission in Michigan was very thoughtful in how they incorporated that into our filing process. And I anticipate that they'll probably take a similar approach. And so, obviously, that will eat into headroom, but I think we've proven time and time again, irrespective of the headwind, we'll manage the costs to make sure that our customers' bills stay at or below inflation. And so there will be a likely rate impact if you see an increase in tax rate.

Now, the upside is that there was cash flow and credit metric degradation on the heels of federal tax reform. So, if you see a 7% increase in the marginal tax rate, you should see a cash flow benefit as well as some credit metric accretion on the other side of that, and that will presumably lower our funding costs, and that too will offset some of the rate impact. So, I think you'll see some pros and cons, and it's almost the inverse of what we saw when we had federal tax reform in 2017.

Durgesh Chopra
Analyst, Evercore ISI

Q

Understood, guys, thanks. Thanks for the color. One quick follow-up just on strategy and long-term strategy; so a couple of transactions here year-to-date, portfolio optimization, companies' kind of sort of streamlining the businesses, selling non-regulated businesses, just your mostly latest thoughts on EnerBank and your other non-regulated businesses. How does it fit into your long-term value proposition? And then just flipping the coin and then perhaps even opportunities for expansion, given sort of the multiple you're trading at versus peers.

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

Well, great questions, Durgesh. First of all, the EnerBank team, a shout out to that team, they're performing well, and benefiting from this year, actually, from the uptick in home improvement. I've heard, in fact, it's called investing in nesting. And EnerBank is participating in that. So that's been good. But, really, the bottom line is this: we're very content with our business mix where it is.

And I just want to remind everyone that our utility is far and away the driver of our growth at CMS Energy, with 90% of our business mix. And really, so to that end, there's really nothing new to share about our non-regulated businesses. And we just – we manage them very much like we manage our utility business with consistency, high quality off takers or long-term contracts, leveraging our core competency, downside risk management, no big bets. We like our mix.

Durgesh Chopra
Analyst, Evercore ISI
Q

Excellent. And just maybe any thoughts on potential expansion, M&A?

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

Yeah, it just ends up not really being on the top of our list given our organic growth strategy. We've got ample CapEx to deploy. People ask us, because of the CE Way, is that something you could deploy? And maybe someday, we would want to. But that's a long time from now. We really – we have a solid 5-year capital – 10-year capital plan. In the next five years, we have got real visibility to our ability to deliver growth and shareholder value.

Durgesh Chopra
Analyst, Evercore ISI
Q

Appreciate the time, Patti. Thanks so much.

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

You're welcome.

Operator: And 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

Hey, Jonathan.

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

A

Hi, Jonathan.

Jonathan Arnold
Analyst, Vertical Research Partners

Q

Hi. Just a quick one on the $3 billion to $6 billion, Patti, that you called out on the renewables or it sort of sits on the top of the 2040 bar on that slide. I'm just curious how much of that is in the 10-year plan versus sort of up in the subsequent years.

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

A

Yeah, great question. We have $1 billion – actually $1.8 billion in renewables in the 5-year plan. And the 10-year plan, we have a potential for additional, maybe even up to $3 billion of total renewables in the 10-year plan. And so, when we think about the $3 billion to $6 billion, think of 2040 that's another 10 years.

But our solar deployments are front-end loaded. We have – of our 6,000 megawatts for solar we intend to deploy by 2040, 5,000 megawatts of it is by 2030. So that really makes up. And that's already in our 10-year plan. But we'll share more visibility to that when we update the capital plan at the year-end call.

Jonathan Arnold
Analyst, Vertical Research Partners

Q

Okay. Great. Thank you for that. And then, just a little more high level, you've been clear that you're going to be using the outperformance you've had this year and the sales help to reinvest not just in 2021, but also beyond. And I'm curious sort of why have a range on earnings growth and why not just target 7%? And then, sort of secondary to that, what could potentially push you to 8% in a given year seeing how you're handling this year, for example?

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

A

Yeah, Jonathan. I will remind you that our 6% to 8% is $0.04 range. So, a single point – we're practically a single point as it is. But we do think that this top tier 7% EPS growth for the sector is among the best and particularly when you factor in the consistency of it. And I just think, as a utility, that you can count on for 6% to 8% with a $0.04 range, the push to 8% it has a temporary benefit, but we would prefer to have an annual take it home, take it to the bank, sleep at night. We ride that straight. We ride that roller coaster, so you can plan on that straight line.

And so the idea of pushing it to 8%, what we've always said and, in fact, when we first announced that we were going to 6% to 8% years ago, we said there might be a year that there were surprises to the upside. But what I want to be really clear about is that, this year, we have ample opportunity to redeploy those savings into protecting outer years and that's always our first priority.

And so I don't want to mislead anyone and make them think there's going to be a sugar high in 2020. This is a perfect kind of year to plan for the uncertainty we're heading into for 2021 and making sure that 2022 can be delivered too.

Jonathan Arnold
Analyst, Vertical Research Partners

Q

We like that stability. So, I say thanks for the reminder, Patti.

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

A

Yes. Thank you, Jonathan.

Operator: And our next question today comes from Stephen Byrd with Morgan Stanley. Please go ahead.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC

Q

Hey. Good morning.

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

A

Good morning, Stephen.

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

A

Good morning.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC

Q

Congrats on the continued strong execution. A lot of my questions have been addressed. I wanted to go back to the point about in the event that there is a Democratic sweep and there's clean energy legislation, and I just wanted to talk a little bit more about your resource mix. You have a resource plan, as you mentioned, coming up in mid-2021.

And if there was legislation that extended tax credits for wind and solar, perhaps created a new tax credit for storage, is it your sense that that would be enough to essentially sort of tip the scales further meaningfully in favor of renewables adoption more quickly and phasing out fossil fuels more quickly just given the magnitude? How do you kind of think about the sort of magnitude of impact of that kind of support on your kind of thinking on your resource plan?

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

A

Yeah, Stephen, great question. A couple of things. One, I do think further tax incentives on storage would be beneficial. I think what's going to be more beneficial is the amount of R&D that's underway in storage. You and I have talked many times about the electric vehicles and all of the research happening there on battery storage. Some of the research is being done on hydrogen both for fuel cells for vehicles, but more importantly for us, from a perspective of hydrogen as a fuel cell version of storage on our system.

Those kinds of, whether it's tax treatment or R&D investments, can accelerate the deployment of clean energy. And we look forward to that. There's a real problem with the ITC with solar that utilities can't – because of normalization can't take full advantage. I think if there were some fixes from a tax perspective on the ITC for solar that could be interesting for utilities and could potentially make solar deployments more economic faster. And so, I do think there will be some interesting developments if there is, in fact, a blue wave here in a couple weeks.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC

Q

That's helpful. Appreciate it.

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

A

Yeah, Stephen, the only thing I'll add to Patti's good comment is that, obviously, the tax credits can help address the cost related problem or cost related challenge and that's a big element of the equation. But the other elements of the equation, obviously, are resource adequacy. And I'll also add balance sheet to that equation. And so, I think if you're getting at whether that could lead to an accelerated retirement of coal, you'd have to see an improvement in the costs. And again, tax credits may get at that, but also the efficacy of those alternative resources. If you really want to be comfortable taking out say 2 gigawatts of coal on an accelerated basis.

And then, balance sheet, Moody's still continues to impute securitizations as debt. And so, again, if you think about the rate base we have in our coal facilities and that potentially becoming debt in an accelerated fashion, there are balance sheet issues as well. So, I think cost is a huge component that tax credits could solve. But we have to make sure that all elements of the equation add up in the interest of the triple bottom line.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC

Q

Yeah, Rejji, it's a good point about sort of the balance sheet treatment if you're required to do a PPA and the negative impacts to your balance sheet. I guess if I were to – thinking through what you both said, if there were a way for utilities to actually really utilize the tax credits, which could require modification, but let's assume that that modification could happen. And if there was a way via tax credits to reduce the cost of storage, would those types of changes together potentially permit a somewhat more aggressive shift, shutdown of coal and a more aggressive deployment of renewables and storage? Are those the kinds of changes that could actually kind of make a difference in your thinking?

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

A

Those are some of the changes. I think we have to prove the efficacy of these distributed resources, Stephen. There's a lot of theories about it. I think we need to prove to ourselves that, with a distributed resource mix, we can provide the reliability that customers want. We can't have rolling curtailments because we didn't plan and don't have the resources necessary. So, I think the timing, when we think about our 2040 net zero plan that feels to us like a good timeline to really build out these new technologies and including the energy efficiency and demand response. Those things take time to enroll customers and get the right behaviors.

And so, I do think there is a two-pronged, there's the cost as we've talked about, but there's also, as Rejji mentioned, the efficacy of those resources and making sure that we can provide the reliability that customers expect. And so there you have to actually build the stuff and prove it to ourselves before we can scale the whole system.

Stephen Calder Byrd
Analyst, Morgan Stanley & Co. LLC

Q

That makes sense. Thanks so much for the thoughtful comments. That's all I had.

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

A

Yeah. Thanks, Stephen.

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

Travis Miller
Analyst, Morningstar, Inc.

Q

Good morning. Thank you.

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

A

Good morning, Travis.

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

A

Hi, Travis.

Travis Miller
Analyst, Morningstar, Inc.

Q

I was wondering if you could give your thoughts on the role that you'll play in the healthy climate plan. I know you've got a lot of the goals already out there and the investments out there that correspond to the goals in that plan. But just wondering, next year, if you'll be involved specifically in the planning and goal setting around that, and then kind of any other thoughts in terms of how it might affect, say, your next five years, in the early stages of the plan.

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

A

Yeah. We will definitely be involved. We're a trusted resource here in Michigan as a clean energy leader and a clean energy advocate. I think it's just reaffirming to our Clean Energy Plan that we filed, and it certainly is an ambitious goal for Michigan. But we really intend to continue to be leaders, and our IRP is very much in support of the Governor's ambition.

Travis Miller
Analyst, Morningstar, Inc.

Q

Okay. What do you think about the political viability of that? When you're talking about 20-plus years of a policy, obviously, politics can change here, what are your thoughts around that and the buy-in from all of the different parties in Michigan and industries even on that plan?

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

A

Yeah, Travis, you make a great point, because there's a couple of things that are going to be challenging, I think, for Michigan. But one of the things we've learned here in Michigan, the actual law that we passed in 2008 and then, I'd say, upgraded in 2016 is where the actual targets get set that drive actions. And they're more near-term, clearly. Our RPS, for example in 2016 – well, in 2008, was 10% by 2015, and then 2016 we passed a law to take it to 15% by 2020 (sic) [2021]. Those incremental concrete targets get passed in legislation.

So, you're absolutely right. There needs to be a full appreciation and adoption. And energy legislation here in Michigan has been typically happening about every eight years or so. So, it would take some time, I think, to get new legislation passed. But, nonetheless, the other challenge here in Michigan with natural gas, for example, for home heating is very economic. And so, I think politically a difficult uphill battle to tell all Michiganders they're going to pay twice as much for their home heating. I think that's a challenge that politically would be hard to overcome without a significant change over time.

Travis Miller
Analyst, Morningstar, Inc.
Q

Okay. Great. I appreciate it.

Operator: Our next question today comes from Angie Storozynski with Seaport Global. Please go ahead.

Angie Storozynski
Analyst, Seaport Global Holdings LLC
Q

Thank you. So, Patti, you just mentioned your gas LDC, and so I have two questions about it. One is this is really the first season that your gas LDC will be going through COVID like conditions, and obviously, it's a bit of a guessing game, but do you have a similar customer mix on the gas side as electric side? And so, the trends that you've seen in volumes could be replicated at the gas utility you think...

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

No, it's not...

Angie Storozynski
Analyst, Seaport Global Holdings LLC
Q

...this one is obviously weather depending.

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

Yeah, we don't expect the same kind of uptick in use. Most people heat their homes and keep them at that level. They might lower it a couple of degrees during the day while they're at work. But we don't expect sort of the increase that we've seen on the electric side. However, we are more residential mix on the gas business. But we have ample supplies here in Michigan. We are blessed with robust energy, natural gas storage fields here in Michigan, and we have no concerns about having any inability to meet the needs of our customers for their winter heating.

Angie Storozynski
Analyst, Seaport Global Holdings LLC
Q

And my second question is, you just mentioned the economics of gas-based heating versus electric heat pumps from Michigan, but on the other hand, we have seen this meaningful de-rating of standalone gas LDCs. You guys own a big one. It gets coupled with an electric utility, so you haven't seen an impact. But if you look at your longer-term growth plan, do you feel the need to shift some of your spending away from the gas LDC towards the electric utility because that's basically the preference of investors, and also that's more of a trend to decarbonize the entire entity?

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

A

Well, there's a couple thoughts as we look at our capital planning. Number one, a safe and reliable gas system is extraordinarily valuable today and will be in the coming decades. Safety is always number one. And the replacements that we are doing are like-for-like, we're not adding capacity. We're making our system safer and, by the way, at the same time, reducing methane emissions. So, it's both good for people and the planet, and then those investments obviously have reliable returns. So, it's our triple bottom line thinking there.

I would also say that the electric utility, the combo – the fact that we're a combo utility does make us hedged to some degree if there is a big push for electrification and as electric home heating becomes a real trend, then we will be able to benefit from that. And in fact, the earnings potential is even greater in that perspective. But when we think about it from a triple bottom line perspective, we think we can do the net zero methane target for 2030 as we've stated through our capital investments in the gas system without hazarding sort of stranded assets.

And I guess I would just offer, in a state like Michigan with the kind of temperatures we experience and the value that customers receive for the cost of natural gas, we'll be the last to go. Our customers are really going to – they appreciate our natural gas as a home-heating source. And so, I think it will be a long time before there's a big change there. But when that change happens, as a combo utility, we're in a good position to weather that.

Angie Storozynski
Analyst, Seaport Global Holdings LLC

Q

Great. Thank you.

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

Anthony Crowdell
Analyst, Mizuho Securities USA LLC

Q

Hey. Good morning, Patti. Good morning, Rejji.

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, Anthony.

Anthony Crowdell
Analyst, Mizuho Securities USA LLC

Q

I know you addressed it earlier in Durgesh's question, but you're comfortable with your business mix. I think your utility is the one that's really growing like a 90% mix between regulated and non-regulated businesses. But if you start to see other utilities and I know you're not going to comment on DTE, but if DTE were to go to like a 100% regulated or it seems that all utilities were to go to even that small slice of 10% of non-regulated earnings. CMS is benefiting maybe being one of the more robust valued companies. Would that cause you to look again at the business mix that you have?

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

A

Like I said, Anthony, and I'll just reiterate, we're really comfortable with our business mix, 90/10. And when we think about our Enterprises business in particular, we learn a lot from customers having them in the family. We get a chance to understand what the competitive marketplace looks like and it makes us a better utility. And so we're very satisfied as I mentioned with our business mix.

Anthony Crowdell
Analyst, Mizuho Securities USA LLC

Q

Great. Thanks for taking my question.

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

A

You're welcome. Thanks, Anthony.

Operator: And our next question today comes from David Fishman with Goldman Sachs. Please go ahead.

David Fishman
Analyst, Goldman Sachs & Co. LLC

Q

Good morning, Patti and Rejji.

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

A

Good morning, David.

David Fishman
Analyst, Goldman Sachs & Co. LLC

Q

Just a quick question on the IRP – future IRP filings. The last filing, I believe, had about 1.1 gigawatts of solar; 50% owned, 50% PPA. I was just wondering if you could discuss if your thinking has evolved at all around maybe the appropriate balance between PPA and utility ownership in the future especially as CMS has started getting a little more scale in renewables and just how you might be able to deliver a better value for customers?

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

A

Yeah. We will re-file an IRP every three to five years. And so, as I mentioned, we're preparing for next summer to file our next one. The agreement that we made for 50/50 ownership and purchasing PPAs, with the financial compensation mechanism, we felt was a great outcome for customers.

It's a competitive marketplace. We're getting to see and observe the landscape. We do continue to learn, and it will be interesting to continue to learn. So, I guess I would say it's too soon to say that we would recommend a change because we feel like it has provided a huge benefit to customers and investors given the FCM combined with the ownership and the PPAs.

So, I would just suggest, it is too early to say that we would recommend any kind of change there. And we continue to learn and balance that triple bottom line.

David Fishman
Analyst, Goldman Sachs & Co. LLC

Q

I think that makes a lot of sense. And just one quick follow-up on that. I know in the past you guys have kind of discussed how you like to have a smoother, less lumpy CapEx kind of project profile. Would having too many large renewable investment opportunities at once kind of be going away from that? Or is that something that you could get comfortable with, just theoretically?

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

A

It is one of the things we love about renewables is that they are modular just in nature. And so, we can phase them in. And as demand grows, we can move them faster. If demand diminishes, we can install them more slowly. We're not going to have just one big project. We're going to have lots of, call it, 200-, 300-megawatt projects, maybe 100-megawatt projects. And that gives us real modularity.

And I think that's a huge advantage to this clean energy transition over the old traditional just build a big central station power plant, you were locked in. Once you dug that first hole, there you went. And that was going to be a real challenge if conditions changed. And so we do love renewables for that feature.

David Fishman
Analyst, Goldman Sachs & Co. LLC

Q

Perfect. Very helpful. Those are all my questions and congrats...

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

A

Thanks, David.

David Fishman
Analyst, Goldman Sachs & Co. LLC

Q

...on a great quarter.

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

A

Thanks.

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

Andrew Weisel
Analyst, Scotia Capital (USA), Inc.
Q

Thanks. Good morning, everybody.

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

Good morning, Andrew.

Andrew Weisel
Analyst, Scotia Capital (USA), Inc.
Q

A lot of good details. So, I just got two quick ones for you: one housekeeping and one big picture. First, it looks like the overall liquidity fell by about $1 billion, mostly related to lower unrestricted cash balance. Is that a timing issue and will it reverse? Or are you comfortable with the overall liquidity at around $2 billion versus over $3 billion previously?

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

Andrew, I'll answer your last question first, the quick answer; very comfortable with $2 billion net liquidity position. I mentioned in Q2 that the $3 billion that we had at that point, there was a bit of timing in that where we had some looming maturities that just didn't flow through our second quarter numbers and they were pending.

And you'll see that if you compare the maturities in this document versus what we shared in the second quarter, we feel very good about the $2 billion. My sense is it'll come down a little bit more, again, because in the nascent stages of the pandemic, we really wanted to err on the side of having excess liquidity, particularly given the cost of funds. But, longer term, again, we will not have a bunch of lazy capital just sitting on our balance sheet. We'll put it to work. And that's what we look to do over the next couple of quarters.

Andrew Weisel
Analyst, Scotia Capital (USA), Inc.
Q

Yeah, it was definitely a capital raising bonanza in March and April. That makes sense. My other question is maybe a little esoteric, but you talked a bit about Michigan's naturally occurring natural gas storage fields. In the context of hydrogen potentially being one of the next big things, do you know geologically could those storage fields store hydrogen?

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

We are studying that. We understand that it's likely that they can. And so, we do find that intriguing. And as we're doing our long-term gas planning, wondering and looking for opportunities to pilot being able to use hydrogen in a different way, whether it's as a portion of our mix, whether we would use it in some blend in our power generating, at our natural gas power plants, or just in the system.

So, we're doing a lot of homework and study on hydrogen right now. We've joined with EPRI and their carbon studies. So, we're excited about learning more. And we have a feeling that Michigan is going to be extraordinarily well positioned if in fact that transformation starts to occur.

Andrew Weisel
Analyst, Scotia Capital (USA), Inc.

Q

Good to hear. Thank you very much.

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

A

Thanks, Andrew.

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

Patricia K. Poppe

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

Thanks, Rocco. And thanks again, everyone, for joining us today. I'd love to take just a moment to highlight that we will be working with Rivel again this year to continue our efforts. You know we're never satisfied. And so, we're going to continue to pursue world-class performance, including in investor relations.

So, be on the lookout for an e-mail from the team for more details on that survey. And we look forward to your honest feedback and continued support. We wish you all. Please be safe, be well, and make sure to wear your darn mask. Thanks so much. Have a great day.

Operator: And thank you, ma'am. Today's conference has now concluded. We thank you for your participation. You may now disconnect your lines and have a wonderful day.