

CMS Energy Corporation NYSE:CMS

FY 2025 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates

	-FQ4 2025-			-FQ1 2026-	-FY 2025-			-FY 2026-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.94	0.95	▲ 1.06	1.04	3.59	3.61	▲ 0.56	3.87
Revenue (mm)	1943.33	2233.00	▲ 14.91	2534.73	8103.61	8539.00	▲ 5.37	8540.53

Currency: USD

Consensus as of Feb-06-2026 12:55 PM GMT

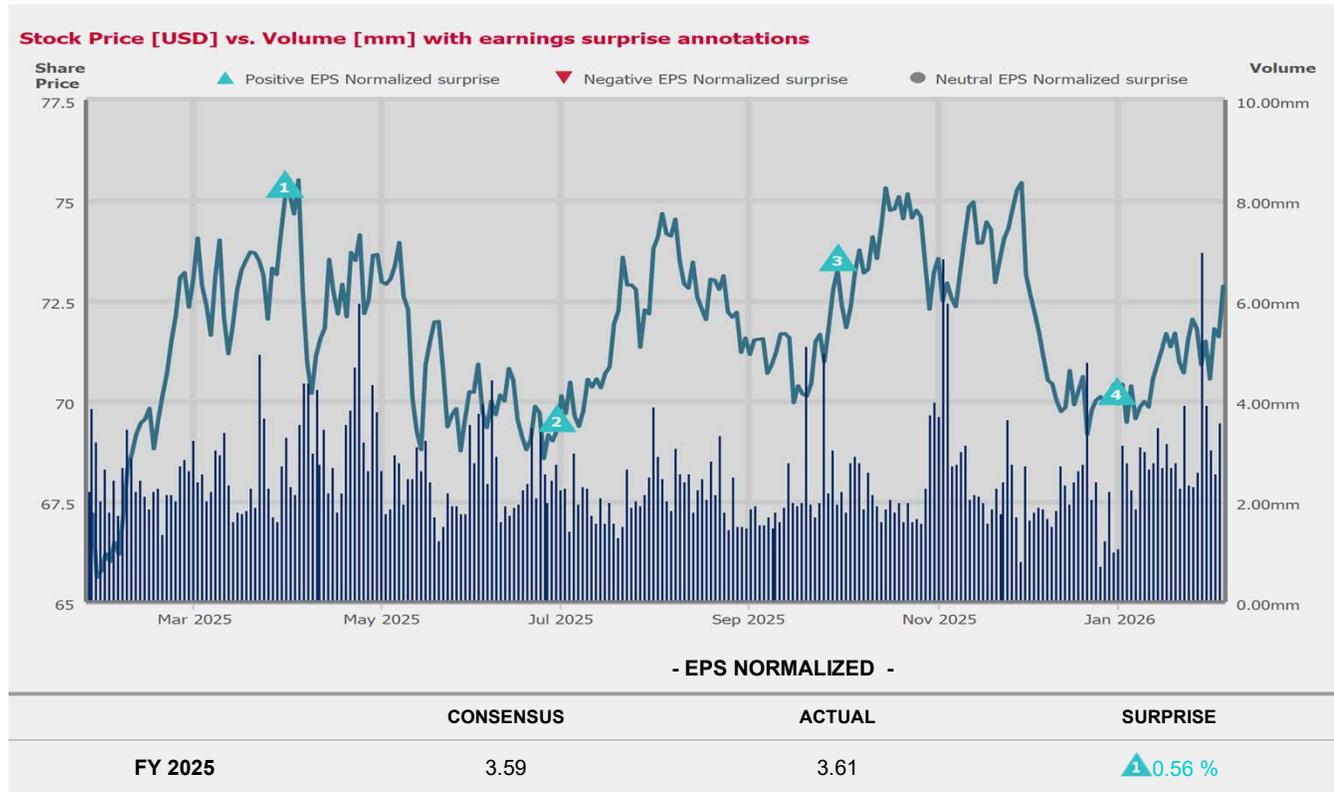


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Call Participants

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Presentation

Operator

Good morning, everyone, and welcome to the CMS Energy 2025 Year-end 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. [Operator Instructions] Just a reminder, there will be a rebroadcast of this conference call today beginning at 12:00 p.m. Eastern Time running through February 12. 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. Jason Shore, Treasurer and Vice President of Investor Relations.

Jason M. Shore

Treasurer & VP of Investor Relations

Thank you, Adam. Good morning, everyone, and thank you for joining us today. With me are Garrick Rochow, 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.

And now I'll turn the call over to Garrick.

Garrick J. Rochow

President, CEO & Director

Thank you, Jason, and good morning, everyone. Before we get into the financial results, I'm very proud of the team in 2025, as you see from the slide. And I want to highlight a few of the big wins the CMS Energy team delivered in 2025. First, I'm very pleased with our large load tariff, which was approved in November. Supplying energy for data centers is a national story and the rush to serve is on the mind of utility leaders. And I'm very proud of the tariff the team worked so hard on this year because it's strategic and thoughtful. It protects our customers and supports growth in the state. This tariff provides certainty for our data centers as we bring new load onto the system and ensures existing customers don't pay a single cent for the investments. And in some cases, they will see tangible benefits as this new load supports more affordable rates as we grow Michigan.

Next, we received approval for our 20-year renewable energy plan, another area the team worked hard on to put the right plan together that meets the requirements in our state's energy law. More importantly, this approval highlights the constructive regulatory environment in Michigan and provides visibility and certainty for our long-term investments in solar and wind, providing roughly \$14 billion of customer investment opportunity over the next decade. On this last one, we have a saying around here. Victory loves preparation. And I want to talk about our gas business. It's been a cold start to the winter and as always, we have been prepared to serve our customers. That doesn't happen by luck or accident. That is a deliberate commitment of our team who work every day to buy gas at the lowest price, store it in some of the largest storage fields in the nation and deliver it safely and reliably to our customers.

We're reducing the price of gas when it is needed most by our customers. This is affordability in action. This reflects our ongoing work to replace this important storage and delivery infrastructure, investing over \$1 billion in the year. So we are there when our customers expect us. At CMS Energy, we wake up every day committed to serve and deliver value for all our stakeholders. And 2025 marks our 23rd year of industry-leading performance. As we prepare for these calls, we do a lot of work on slides, and we all have our favorites.

And this next one is mine. It highlights the team's commitment to excellence and what we are able to achieve, and it shows results, proof points of the great regulatory construct in Michigan. I know you hear from Rejji and me all the time when we're on the road. Our long history of constructive outcomes, multiple years, multiple cases and then add the unique mechanisms like incentives on energy waste reduction and on PPAs, all of which is built into the energy law. It's an outstanding construct. And more importantly, we have been successful getting top-tier outcomes to support our long track record of performance. And this year was no different.

Two rate orders, electric and gas, both approved with constructive outcomes, delivering big wins for our customers, supporting critically important work to improve electric reliability and ensure gas safety across our system. Our 20-year renewable energy plan approved. Over \$14 billion of customer investment opportunity to achieve the state's energy law by 2040, visibility and certainty for

the recovery of our investments. We also delivered on the first-ever storm deferral mechanism approved in June. Our large load tariff was approved in November, priming the pump for growth.

Like I said, my favorite slide. These important outcomes provide visibility and certainty for necessary customer investments in our electric and gas systems, and this track record of constructive outcomes continues to highlight what the CMS Energy team is able to achieve and further reaffirms Michigan's top-tier regulatory environment. When I look forward, I have confidence in our ongoing electric rate case. Given the reactions to our recent proposal for a decision, I would remind the investment community that this is simply a step in the process and is not reflective or consistent with our strong track record of performance. The MPSC staff, professionals have spent significant time with the testimony and merits of this case. Staff position is constructive, and I would argue much closer to the expected rate case outcome. I would also note that the commissioner's previous public comments from the bench support the need for an improved electric grid and constructive ROEs.

This case is built on the fundamentals of our reliability road map, the MPSC-commissioned Liberty distribution audit and the necessary customer investments to support electric reliability while maintaining affordability. I expect a constructive outcome for our customers and investors. I also expect the ROE to be 9.9% or better. In our recently filed gas rate case, I'm confident in the investments to ensure the gas system is safe, reliable and clean and the value to customers of our proposed full gas decoupling. As I shared a moment ago, our gas price is on the decline, and our residential natural gas rate is 28% below the national average, striking the right balance between investment in the system and affordability for our customers.

Now on to the financials. For 2025, we exceeded our adjusted earnings per share guidance and delivered \$3.61 per share. This is up over 8% from 2024's actual results and delivers that compounding of earnings you have come to expect from CMS Energy. Throughout 2025, we continue to see strong performance at the utility, largely driven by constructive regulatory outcomes and robust performance at NorthStar driving full year results. This performance allowed us the opportunity to exceed or beat guidance at year-end, deliver better service for our customers and derisk the business for the coming year.

For 2026, we are raising our annual guidance by \$0.03 to \$3.83 to \$3.90, which represents 6% to 8% growth off of 2025 actual results, and we continue to guide toward the high end. Our practice of rebasing higher off of actuals is a differentiator in this sector and provides a higher quality of earnings for our investors. And we deliver year in and year out, easy, straightforward math, compounding growth and bringing greater value, how we've done it for years. We are also reaffirming our long-term guidance range of 6% to 8% toward the high end. And as part of our total shareholder return, we'll continue to grow the dividend as we have for over 20 years, targeting a dividend payout ratio of approximately 55% over time. Finally, we remain confident in our ability to manage the business and execute year in and year out regardless of circumstances, 23 years now, a consistent industry-leading performance.

On Slide 6, we've highlighted our 5-year \$24 billion utility customer investment plan, up \$4 billion from our prior plan. These investments are necessary to deliver better customer service through improved reliability, both in distribution and supply. I want to take a moment to connect the dots on why I'm excited and confident in our ability to execute on this plan. First, we've increased our electric generation investment by approximately \$2.5 billion over the previous plan. Most of this customer investment is already approved in the renewable energy plan with the visibility and certainty I mentioned earlier. Another customer investment that I communicated on previous calls is the addition of natural gas generation and battery storage. Our integrated resource plan that we will file in mid-2026 will detail additional capacity needed to replace retired plants and support existing and future growth. This customer investment opportunity is not contingent on new data centers, but growth already or soon to be connected to our system. And know, we are well on our way in planning and preparation to deliver this capacity in this 5-year window.

Second, we continue to roll more of our electric reliability road map into our 5-year plan to strengthen our electric distribution system, which has increased by approximately \$1.2 billion over the previous plan. This work and these investments are well aligned with the Michigan Public Service Commission and the results of the Liberty distribution audit. We've also seen constructive support of our investment recovery mechanism in the rate case process.

Finally, our gas investments also increased in this plan in the amount of approximately \$400 million. This aligns with our 10-year natural gas delivery plan and is a result of greater demand across the gas transmission system for power generation and industrial growth. So when I step back and objectively look at our 5-year customer investment plan, there is visibility and certainty around the investments. We have an efficient workforce to get the work done. The work provides significant value to our customers, and I have confidence we can do it affordably. This plan supports 10.5% rate base growth through 2030.

In addition to our robust customer investment plan, we have meaningful growth drivers outside traditional rate base, which are unique to Michigan and CMS Energy and are sometimes overlooked. The financial compensation mechanism, which allows us to earn on PPAs grows over the 5-year period, offering nearly \$50 million of incentives by the end of the decade. And there's approximately \$65 million per year of incentives through our energy efficiency programs enhanced by the 2023 energy law. We also expect incremental

earnings from our non-utility business, NorthStar Clean Energy, as we continue to see attractive pricing from capacity and energy sold at Dearborn Industrial Generation, or DIG.

Now we make all these investments with a strong focus on customer affordability. We have a proven track record of driving customer savings through the CE Way and digital automation, episodic cost-saving opportunities, load growth and energy waste reduction. This creates capital headroom, which maintains affordability as we make important and needed investments in our system.

To offer a few examples, in 2025, we had another great year leveraging the CE Way to deliver work more efficiently, over \$100 million in savings. In 2025, our energy waste reduction program will save our customers approximately \$1.2 billion, reducing our customers' bills because when you use less, you pay less. Our efforts here are making an impact. Today, our customers' utility bills remain roughly 3% of their total expenses or what is often referred to as share of wallet. This is down 150 basis points from a decade ago, while we've invested significantly in our system to the tune of roughly \$24 billion. I'm also pleased to share that our recent electric bill increases are among the lowest in the country. We are committed to keeping our residential bills below the national average, Midwest average too and plan to be over the 5-year plan period. This is an important commitment. Every penny we spend on our infrastructure investments is done with customer affordability at the center.

As I've said before, Michigan is growing, and I continue to be positive and confident about the progress of the data center we announced on the Q2 call. The large load tariff was an important milestone to provide clarity for the data centers and to protect our existing customers. I'm pleased to share that there has been great progress with the data centers that are considering locating in our service area. Regarding the data center referenced on the Q2 call and depicted on the slide, we've reached commercial terms on the extraordinary facilities agreement, which is similar to an ESA or electric service agreement. We're also at near-final terms in our rate agreement. Our agreements have a path to serve their peak demand, and we know both the timing and incremental supply resources that are needed to serve this load. We also know the expected ramp time line. That time line would have their data center online as early as 2028. Keep in mind, the data center is not yet reflected in our 5-year customer investment plan.

In addition, we are in advanced talks with the second data center that has been public about their expansion in Michigan and specifically in our service area. While we can't give more details at this point, I can say we are working with them on their needs. We are looking forward to serving this prospective customer. Our pipeline for growth is exciting and robust in Michigan and in our service area, we are well equipped and prepared to serve data centers and manufacturing customers.

On that high note, let me hand the call over to Rejji to offer additional details.

Rejji P. Hayes
Executive VP & CFO

Thank you, Garrick, and good morning, everyone. To elaborate on the strength of our financial performance in 2025, on Slide 9, you'll note that we met or exceeded all of our key financial objectives for the year, most notably our adjusted earnings per share. To avoid being repetitive, I'll just note that we successfully invested \$3.8 billion, largely in line with our original guidance to make our electric and gas systems safer, more reliable and cleaner on behalf of our 3 million customers at the utility. We managed to do this while funding the business in a cost-efficient manner, largely through operating cash flow, well-priced bond and equity financings and tax credit transfers. This prudent funding strategy enabled us to maintain our solid investment-grade credit metrics and associated ratings as affirmed by each of the rating agencies over the course of the year, most recently by S&P for our parent company, CMS Energy in December.

Moving on to our 2026 EPS guidance on Slide 10, you'll note the rebasing of the range higher off of our 2025 adjusted EPS actuals as per our historical practice. More specifically, our 2026 adjusted EPS guidance range has increased by \$0.03 per share on both ends of the range to \$3.83 to \$3.90 per share. Our increased 2026 EPS guidance implies 6% to 8% growth with continued confidence toward the high end of the range, as Garrick noted, which is effectively 7% to 8% given our historical performance. As you can see in the segment details, our EPS will primarily be driven by the utility, providing \$4.28 to \$4.33 of adjusted earnings as we plan for normal weather, constructive regulatory outcomes and earned returns at or near authorized levels. At NorthStar, we're assuming an EPS contribution of \$0.25 to \$0.30, which incorporates normalized operations at DIG, benefiting from an increasingly favorable mix of capacity contracts and the completion of select renewable projects.

Lastly, our financing assumptions remain conservative at the parent segment with expected equity issuances of approximately \$700 million to support the increased capital plan at the utility. Our guidance in the parent segment also includes a full year of interest expense from last year's successful convertible debt offering in the fourth quarter and assumes the absence of liability management transactions. To elaborate on the glide path to achieve our 2026 adjusted EPS guidance range, you'll see the usual waterfall chart on Slide 11. For clarification purposes, all of the variance analyses herein are measured on a full year basis and are relative to 2025. From

left to right, we plan for normal weather, which in this case amounts to \$0.22 per share of negative variance given the absence of favorable temperatures experienced in 2025, largely in our electric business.

Additionally, we anticipate \$0.37 per share of pickup attributable to rate relief driven by the residual benefits of last year's gas and electric rate cases and the expectation of constructive outcomes in our pending electric and gas rate cases. Outside of the general rate cases, we also expect to see earnings contributions from our investments in renewable generation assets in accordance with our recently approved renewable energy plan.

As always, our rate relief figures are stated net of investment-related costs such as depreciation, property taxes and utility interest expense. As we turn to the cost structure in 2026, you'll note \$0.12 per share of positive variance due to the anticipation of continued productivity driven by the CE Way and more normalized storm activity in our service territory. It is also worth noting that our projected operating expenses reflect the benefits of operational pull ahead executed in 2025. And as always, we will adjust our cost assumptions in accordance with rate case outcomes, given the financial flexibility inherent in the forward-looking test year.

Lastly, in the penultimate bar on the right-hand side, you'll note a modest variance, which largely consists of growth at NorthStar per my earlier comments. This bucket also includes the roll-off of 2025 liability management transactions and the usual conservative assumptions around parent financing costs and taxes, among other items. In aggregate, these assumptions equate to a variance of negative \$0.05 to positive \$0.02 per share. As always, we'll adapt to changing conditions throughout the year to capitalize on opportunities and mitigate risks to deliver on our operational and financial objectives to the benefit of customers and investors.

On Slide 12, we have a summary of our near- and long-term financial objectives. As Garrick noted, from a dividend policy perspective, we're targeting a payout ratio of approximately 60% in 2026 and roughly 55% over the course of our 5-year plan. Given the elevated cost of capital environment and the breadth and depth of customer investment opportunities before us, we continue to believe that it is prudent to retain more earnings to fund growth. From a balance sheet perspective, we continue to target solid investment-grade credit ratings, and we'll continue to manage our key credit metrics accordingly as we balance the needs of the business. As such, we intend to continue our at-the-market or ATM equity issuance program in the amount of approximately \$700 million in 2026, as mentioned earlier.

Over the course of the 5-year plan, our aggregate equity needs will be consistent with our historical ratio of \$0.40 of equity for every dollar of incremental CapEx and equates to an average of approximately \$750 million per year given the substantial increase in our 5-year customer investment plan. And while we do have some capacity remaining with our existing ATM program, you can expect us to file a new prospectus supplement to reflect our updated needs later this year. Lastly, we also expect select large multiyear economic development projects to begin ramping up in 2026, yielding approximately 3% weather-normalized load growth for the year with run rate assumptions of 2% to 3% in the outer years of our plan.

Slide 13 offers more specificity on the funding needs in 2026 at the utility and the parent. At the utility, we're planning to issue a little over \$1.7 billion in aggregate. And at the parent, you'll note that our debt financing needs were pulled ahead in November of 2025, which leaves the aforementioned equity issuance needs of roughly \$700 million. Needless to say, we'll remain opportunistic throughout the year, and we'll continue to monitor the markets for attractive issuance windows.

On Slide 14, we have refreshed our sensitivity analysis on key variables for your planning assumptions. As you'll note, with reasonable planning assumptions and our track record of risk mitigation, the probability of large variances from our plan is minimized. Our model has served and will continue to serve all stakeholders well. Our customers receive safe, reliable and clean energy at affordable prices. Our diverse and battle-tested workforce remains committed to our purpose-driven organization, and our investors benefit from consistent industry-leading financial performance.

And with that, I'll hand it back to Garrick for his final remarks before the Q&A session.

Garrick J. Rochow
President, CEO & Director

Thanks, Reiji. At CMS Energy, we deliver. 23 years now of consistent industry-leading performance regardless of changing circumstances, year in and year out. You can count on CMS Energy to deliver for all of its stakeholders. With that, Adam, please open the lines for Q&A.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Julien Dumoulin-Smith from Jefferies.

Julien Patrick Dumoulin-Smith
Jefferies LLC, Research Division

As always, I appreciate your infectious energy you convey on these calls. Look, if I can kick it off here as it pertains to the data center opportunity you guys alluded to here. Obviously, you're in advanced talks as you characterized it here. Can you give us a little bit more of a sense as to where we stand on data centers in Michigan?

Obviously, there's been a lot of discussion in the state more broadly, maybe not necessarily specifically as to the second site here. But how are you thinking about that opportunity? And how would you set expectations on the time line? Obviously, you can't give too many details, but at least from a financial update and frankly, in terms of a roll forward of your overall plan, you've put a lot of progress in here with the 10.5% rate base CAGR. Just want to see how you would marry up any kind of timing on a second data center here against your wider financial plan here ultimately. At least as best you can tell right now.

Garrick J. Rochow
President, CEO & Director

Look, I'm very pleased with the progress from a data center perspective. And you look at that entire funnel, and that funnel has actually grown. We've had just in the last month, another 2 data centers joined the group in there. Again, they're kind of at the top of the funnel. So they haven't worked their way through. Even in broader economic development, there's 2 large manufacturing customers that are also in that funnel, too, that are relatively new in this thing. And so like Michigan's economic development story looks very, very strong from my perspective. And then they're continuing to move through that funnel. And we've blown a couple of them out in my prepared remarks.

And so, like, again, referencing the one we announced in Q2 with a tentative agreement, that's continued to move forward. The first piece was getting that data center tariff in place. That really paves the way, right, for these. They know the terms, they know the conditions. And so getting the facilities -- extraordinary facilities agreement in place was a big win.

And again, that's comparable to a service agreement or electric service agreement in other utilities. And then this rate construct or rate contract is at near final. And that's necessary to go through the regulatory process of approving the contract, right? And so I feel good about that. That should be a short process because we've done all these preapprovals, right? And so again, that's a good glide path. And we continue to work with these customers on finalizing zoning. And so everything is headed in the right direction here, which gives me a lot of confidence about our ability to secure -- well, a couple of data centers potentially. But, like, certainly, what I'm focused on is the one where we're closest with the contract terms and conditions. Is that helpful, Julien?

Julien Patrick Dumoulin-Smith
Jefferies LLC, Research Division

Yes, absolutely. And then maybe secondly, I mean, you guys just gave this big update on the plan here. I'd just love to nitpick a little bit around it in as much as it really puts a lot of latitude within the 6% to 8% here. So I would love to think about or walk through a little bit what's in and what's out of the plan and how you would think about the pieces here because you got a 10.5% against the 6% to 8%. Obviously, you guys are talking about a certain degree of dilution against that.

But separately, you talked about a \$50 million pretax FCM. You talked about some \$65 million of energy incentives or Energy Efficiency incentives. You talked about NorthStar DIG recontracting. Like, if you take the rate base plus some of these other items, how are you feeling about the 6% to 8%? And what's in and what's not encompassed in the formal plan today? I'm cognizant much of the data center discussion we just had is not explicitly.

Garrick J. Rochow
President, CEO & Director

Yes. Just to confirm that the data center piece is not, and that would be incremental investments. And again, we know what that time line looks like and those resources and how to accommodate those to deliver for the customers. But Rejji will walk through a little bit of the math here in the 6% to 8%.

Rejji P. Hayes
Executive VP & CFO

Yes, Julien, we thought we'd get that question within the first 3-or-so questions. So you did meet the over-under on that. So well done. Yes. And so I think you've got the components right where you've got 10.5% rate base CAGR over this 5-year window. And then if you add NorthStar opportunities as well as the FCM, both of which have grown versus the prior vintage, that adds about another point on top of that 10.5%. And then there's some other puts and takes that we can certainly spend some time on offline. And so that gives you, I would say, a low double-digit CAGR with NorthStar FCM plus rate base growth. What bridges you down to the guide of 6% to 8% with confidence toward the high end, which is as I said in my prepared remarks, just call it -- let's call it 7% to 8%, and let's realistically call it 7.5% to 8%. What bridges you down to that is just the funding cost because we are issuing more equity in this plan versus the prior vintage.

We've quantified that as about 3.5% just given our market cap today and again, the quantum of equity. And so you're going from a low double-digit CAGR of growth netted down by that equity that, again, is around 3.5%. The other driver of sort of downward pressure on that growth is just the fact that we've got about \$1.7 billion of parent refinancings over the course of this 5-year plan and it's important to remember that unlike the prior sort of 15 years or the first 15 years of this century, money is no longer free.

And so unfortunately, we'll be refinancing those parent bonds at issuance levels higher than initially they were funded at. And so there's a little bit of a negative arbitrage. We are not alone in this. The entire sector will be impacted by that. But needless to say, it's important to remember that at the parent company, those financing costs are non-recoverable. And so it's a combination of the equity needs and just parent refinancings that will drive us back down to that 7.5% to 8%.

And the last thing I'll note is just even if you do that math out and you say, okay, well, there's a little bit of cushion that kind of gets me to about 8.5%. Remember, we compound off of actuals every year. As Garrick noted in his prepared remarks, we think that's a higher quality of earnings. And you do have to build in some contingency to be able to do that year in and year out like we've done for the past 23 years. And then, of course, as we've talked about before, we do not have full decoupling yet on gas or -- and certainly not on electric, and we have storm activity. And so you have to build in some cushion as well for weather risk. And so for all those reasons, we feel good about the guide today, and that's how you bridge from that high teens -- or sorry, not high teens, but low double-digit CAGR down to the 6% to 8% and really call it 7.5% to 8%. Is that helpful?

Garrick J. Rochow
President, CEO & Director

Let me, look -- Julien, maybe I just add some -- yes, I want to add a little more clarity even on to Rejji's good remarks. And let's reflect here on 2025, constructive regulatory outcomes, outperformance at NorthStar, that allowed us to reinvest back in the business. Rejji talked about from a pull-ahead perspective. Better customer service. We were able to do that this year, additional tree trimming work on the gas system. We also derisked future years, and there was upside that we were able to pass on to our investors. And then we have the confidence to, again, compound off that and add \$0.03 to our guide. And so, like, this should speak to the strength of our plan and our confidence in the plan. And so again, don't underestimate this compounding piece, 6% to 8% to the high end in this compounding of growth.

Operator

The next question comes from Nick Campanella from Barclays.

Nicholas Joseph Campanella
Barclays Bank PLC, Research Division

Thanks for the answers on the rate base to earnings walk. That was very helpful. Maybe just a large component of the plan is also just the authorized returns. And I hear the comments about expecting something closer to a 9.9%. But just the PFD, I would say, is just quite concerning from seeing an 8%-and-change ROE significantly below the national average, not really representative of the cost of capital environment that you guys kind of spoke to in the prepared. So just maybe kind of talk a little bit about what the feedback from stakeholders has been since this has come out and how you're kind of viewing the decision tree into March here and just overall confidence for a constructive outcome?

Garrick J. Rochow
President, CEO & Director

Look, I'm not concerned about the ALJ PFD at all. Just to be super clear, this team, the CMS Energy team has delivered, and we've got a track record of performance. And credit goes to the team and a very constructive regulatory environment. And as I shared, just

to be clear, we expect a constructive outcome, and I expect an ROE of 9.9% or better, not close to 9.9%, 9.9% or better in the context of this case. And let's just take that 8.2%, like it's an outlier. It's not well supported. It doesn't match the environment. Like it's going to be discounted in this case.

But I will point to this, take the revenue deficiency that the ALJ offered, \$168 million, apply a prevailing ROE of 9.9%. It's like the number goes to \$314 million, right? That's actually in the ballpark where staff is at. It's actually a lot closer and so like that speaks to the merits of the case, like there's good justification for the capital investment. There's good justification for what we need to do in O&M and tree trimming and storm restoration and the like.

And then turn to staff's position, right? Like I said in my prepared remarks, professionals, amazing public servants who are dedicated to understanding this industry. And there's a lot of stuff that goes on outside the cases, IRPs and REPs and reliability road maps. We're building a case (sic) [the case] like we're building outside the case for the next case. And then you go into the case. And this team, the CMS Energy team does an amazing job and have improved our testimony in justification and business cases for these investments. And the revenue deficiency from staff is very constructive as well, right? It's \$317 million against an ask of \$423 million.

And so like there is a clear path to a constructive outcome. In terms of ROEs, we've heard it from the bench, from the chair that excess has been driven out. And I believe, supported by testimony, again, clear testimony supports these ROEs that this commission sees the importance of attractive and attracting capital to Michigan, and that's important for all stakeholders, including our customers. So that gives me great confidence that we'll be able to achieve a successful outcome in this rate case as well as an ROE of 9.9% or better.

Nicholas Joseph Campanella
Barclays Bank PLC, Research Division

All right. Really appreciate that. And then just on the IRP, can you maybe kind of talk about how the 1 to 2 gigawatts in final stages kind of impacts the capacity need and just -- or maybe just level set without this, what is kind of the outlook for the capacity need out to the early 2030s? And then a follow-on is just when you would wrap in the 1 to 2 gigs, do you see it as truly incremental to the 10.5% CAGR that you outlined today, just given the large load tariff should protect customers from a rate standpoint and this should purely translate to additional rate base growth?

Garrick J. Rochow
President, CEO & Director

Just to be clear on this, the data centers are not in the plan. So any growth from the data centers that are in that funnel are not included in the customer investment plan, just to be clear about that. And so when I think about this integrated resource plan, and I've shared this in some of the calls, we got a renewable energy law or clean energy law. And so -- and much of that's already been approved in the renewable energy plan. So you're going to see that within this IRP. But there's a gap in capacity. You can put all this clean energy in, but you need to fill the gaps when sun is not shining and the wind is not blowing. You just have to do that.

And you're going to do that with batteries and you're going to do that with natural gas. That's going to be -- have to be part of the mix. And so then when we look forward, we also know this, right? We've got load growth in the state. Again, separate from those -- that funnel, 450 megawatts of connected load last year that was on our slide last quarter, right? Those have already been connected. It's 3% load growth just next year alone, and we forecast 2% to 3% over the 5-year plan. And so we've got to be able to deliver on that, right? And then you look forward and you've got some retirements. We've got Karn 3 and 4. Oil-fired peakers that are going to retire in 2031, right? That's roughly a gigawatt of capacity. And so those capacity needs that we're foreshadowing here have to play out in this next IRP and are built into this \$24 billion customer investment plan.

Rejji P. Hayes
Executive VP & CFO

Yes. Nick, this is Rejji. All I would add to Garrick's good comments is that -- and I think we've shared the sensitivity in the past. But generally, every gigawatt of additional load we bring onto the system, we'll need anywhere from, call it, \$2.5 billion to about \$5-plus billion, and that is a combination of the distribution-related resources needed to interconnect the load opportunity as well as additional supply. And I think this point that Garrick has raised is critical in our differentiation versus perhaps some of our peers. This CapEx backlog that we're laying out for you today, this 5-year plan, the \$24 billion, not (sic) [is not] predicated on us landing these large load opportunities.

So that creates incremental CapEx and to directly ask -- answer one of the parts of your question, the rate base CAGR would, in fact, go up if we landed one of these opportunities and had to build out more capacity to accommodate its needs. So obviously, a lot of opportunity on the outside looking in and look forward to giving you updates later in the year.

Operator

The next question comes from Shar Pourreza from Wells Fargo.

Marcella Petiprin

This is Marcella Petiprin on for Shar. So you highlight bill growth compared to the national average and the share of wallet as well as potential savings with the 1 gigawatt data center addition. And we've seen rates be a really big topic in gubernatorial elections. So last year, with Mikie Sherrill of New Jersey and just this week with Josh Shapiro in Pennsylvania. How are you thinking about affordability going into the election here in Michigan?

Garrick J. Rochow

President, CEO & Director

Marcella, it is a great question. And the good thing is this isn't our first rodeo. We've been doing the affordability and the cost savings for a long, long time. But this issue, as you pointed out, is not a Michigan issue. It's a broader national issue. And frankly, when you got a K-shaped economy, like this President is going to have some challenges in this mid-term election. And so when you look at across the nation, and particularly you look at energy costs, it's most pronounced in PJM. And a reminder, we are not PJM. We're MISO. In PJM, all those costs are flowing through to the customer. All those supply and energy and capacity dynamics are flowing right to the customer, 50% of the bill. And it's happening with deregulated utilities, right? All that flows through impacts the residential customer.

The good thing about us, again, we're not PJM, we're MISO. And also, we're a regulated utility, and we own generation. So we're able to hedge that cost. And I showed on my first slide, just this year alone in 2025, we saved our customers \$250 million by self-generating with our own units that are a good heat rate versus buying from the market and exposure to the volatility in the market, \$250 million. And if you go back a year ago, it was over \$200 million. If you go back 3 years ago, it was approaching \$200 million. It's in all -- if you go back to Q4 calls in the slide deck, you'll see all that information. So, like, that's why I say it's not our first rodeo. We do the same thing in our gas business. We buy gas in the summer. We have the largest natural gas storage fields in the world, and we deliver that low-cost gas in the winter, keep our gas supply costs low. This affordability is not new to us. I talked about in my prepared remarks, \$100 million of savings through the CE Way, \$450 million over the last 5 years, \$1.2 billion of customer measures from energy efficiency perspective, right?

I can go on and on about the things we do. And here's some data, and you can look to The Detroit News on this. Richard Czuba polled Michigan residents, Michigan voters, and they asked about this question on cost of living. And 80%, that's a huge number to pull. 80% of Michigan residents said the issue with cost of living was groceries. It wasn't energy, like it's a different fact pattern here in Michigan. And so we continue to focus on it, and that's why we're able to talk about being below the (sic) [this] Midwest average and the national average because we deliver. Now you brought up the important piece of this affordability and the election. And just to be clear, we've got 10 people running for governor. It's a crowded field, right? And everyone is trying to find their little lane. And they talk about different extremes -- extreme politics, like deadcatting, there's all kinds of ways to describe all this stuff.

But again, you got to look at the polling numbers here. And the other important piece is, so who's polling. And so we know that. We work with them. That's an important piece. But also remember another piece in this, there's plenty of information that shows the (sic) [that] rate freezes in Michigan are illegal. Go back to Act 3 of 1939, go to Public Act 191 of 1982. Go back to case law of Michigan -- in the Michigan Supreme Court. So again, we've got a good fact pattern affordability. We've got good case law and good precedent, but that's not all we do. We go meet with these candidates, these gubernatorial candidates, and I pull out 2 pieces of paper, double-sided 2 pieces of paper, and I present them with 10 policy things, policy and legislative things that they can do to improve affordability.

And I will tell you, Rs like some of them and Ds like some of them, but you know what, that changes the conversation. Now I'm with them. Now I'm a partner. Now we're able to provide solutions to continue to take this great affordability equation we have and make it even better here in our capital, in Lansing, Michigan. And so, like, here's part of our success, 23 years of consistent financial performance. That doesn't happen by luck or accident, right? It's because we've got good energy law. That's a big piece of it. But also our job is to be solution providers to work with everybody on either side of the aisle. And when you can come and be a solution provider, man, that's how you get good outcomes. And that's why this works -- this investment thesis works and why we're able to do what we do. Great question, Marcella.

Operator

The next question comes from David Arcaro from Morgan Stanley.

David Keith Arcaro

Morgan Stanley, Research Division

A bit of a follow-on to that thread and really appreciate the comments, Garrick. I was wondering if you could touch on the data center piece of things on the large load tariff side. And I guess, one effort that we've seen maybe getting more common, data centers paying their full share of all costs. We saw Microsoft present that initiative on their side. But I was wondering, maybe talk about the large load tariff and are there ways -- I mean, there are some costs that are more challenging to allocate, whether it's the full generation cost, whether it's the full transmission cost. How can you -- how do you plan to insulate customers from large loads? Are there strategies that you would take beyond the large load tariff that you've got there?

Garrick J. Rochow

President, CEO & Director

It's a great tariff to protect customers. We're out in the public talking about this and clearing up some of the misinformation that's out there that this is not going to raise residential rates at all. And in fact, there's a benefit associated with these data centers. And so as I talked about, we're at near-final terms with the rate construct, it has to be very clear about how they're going to pay for those facts, how they're going to pay for the capacity and the energy. And it's how -- transmission and distribution, how it's all on their nickel. And so it's great when companies like Microsoft come out and say, "Hey, we're going to protect the residential customer." It aligns exactly with what this tariff is -- aligned greatly with the tariff.

And so -- and we're going to have to get approval from the Michigan Public Service Commission on these contracts, right? And so it's very clear what the rules of the road are, and I'm pleased to say we're making great progress on that. I won't get into specifics of how much supply and when. But know, like I said, it can be online as soon as 2028. And again, as that contracts get finalized, as the zoning is finalized, we'll be sure to share that with the investment community and others.

David Keith Arcaro

Morgan Stanley, Research Division

Okay. Great. That's helpful. And I'm not sure if you specifically mentioned, but has there been support from data centers on the large load tariff just in terms of continued interest in coming to Michigan, able to work under the new provisions under that tariff?

Garrick J. Rochow

President, CEO & Director

Yes. Yes. In fact, like I shared in some of my earlier responses, that data center pipeline has advanced and it's even grown in size. And so again, both positive indicators in support for this data center tariff and Michigan's growth.

Operator

The next question comes from Michael Sullivan from Wolfe Research.

Michael P. Sullivan

Wolfe Research, LLC

Garrick, I wanted to pick up on the last couple of questions just around data centers coming to your territory, particularly on the zoning front, there's a lot of articles out there locally and even nationally, too. Just how much of an impediment has that been, if at all? And how much should we think about that as just like a gating factor to get these things over the finish line?

Garrick J. Rochow

President, CEO & Director

I don't see it as an impediment at all. And just to be clear, I know the Wall Street Journal had an article on this, and it referenced Howell, Michigan. Howell is not in our service territory, but your question is still very important and very valid. Look, we've been doing business in the state for 140 years. It goes back to the Foote Brothers. And we know those communities that are more pro-investment, and we know the ones that are harder. And we know this because we're building out solar, we're building out wind, we do pipeline work.

And so in part, we help steer these data centers into those areas where it's more accommodating to growth. But also the Wall Street Journal article, I think where they had it wrong was a moratorium does not mean (sic) [the moratorium, the moratorium does not mean] stop. In fact, it's a short process. Like, these are 30, 60, 90, some are 180-day moratoriums, but there's still progress

being made. And I would suggest it's good due process because these township officials, these community officials are collecting information from their constituents, they're doing research.

And we just saw this in Mason, Michigan, right, in our service territory. They had a moratorium in place. It was a 90-day. They actually came out sooner than the 90-day period and came out with a new zoning ordinance that allowed for data centers. And so again, when I say finalizing zoning, we work through those things alongside with the hyperscalers, with the developers to achieve success. And again, I don't see that as a holdup or an impediment in Michigan.

Michael P. Sullivan
Wolfe Research, LLC

That's really helpful. I appreciate the color. And then just shifting back to the pending rate case and regulatory strategy. What are your thoughts on just being able to get back to more frequent settlements to maybe just take volatility out of the process associated with ALJs like the one we just got. And then also, like, potential to space out cases a little bit more, just given, I think, there's been commentary from the commission in the past and now whether or not rate freezes, legal, illegal materializes, but anything that can, like, alleviate pressure on frequency and then also just parties putting things forth and being able to settle more preemptively?

Garrick J. Rochow
President, CEO & Director

As I've shared before, I continue to be open towards settlement and settlement discussions, and we'll continue to explore those. But again, the merits of the case and just the fact pattern in Michigan, we can go the full distance as we did last year in 2025 with our cases and get very constructive outcomes. And so I'm happy to go that route. And I don't think it's reflective at all about the environment in Michigan. Again, because at the end of the day, we're getting successful and constructive outcomes from this commission. In terms of spacing out, I think a really important data point that I referenced on the call, and we have this information. And I think actually Wolfe has presented this in a different format, too, is that Michigan in particularly CMS and the other large utility, like, our rate increases are some of the lowest in the country, right?

And so can we space them out? Sure. But, like, let's do the math and, like, what's going on in these other states, frankly. And so we've got a really good story. And when we go in annual rate cases, we're able to pass savings back to our customers. We're able to make sure that those increases are more in line with inflation or better than inflation. And so the smaller little bites at the apple is really a great approach. Now I'm always open with the right construct if there's a way to expand those out and go longer, but we have to have the right construct in Michigan to be able to do that. There's some talks, early talks in that direction, but nothing that's serious at this point, Michael.

Operator

The next question comes from Jeremy Tonet from JPMorgan.

Jeremy Bryan Tonet
JPMorgan Chase & Co, Research Division

Just was curious with the upcoming state of the state here, we've seen in other states utilities kind of featured in some of the commentary here. And wondering if you had any expectations or any thoughts to share here given what we've seen in other states.

Garrick J. Rochow
President, CEO & Director

Let me offer this. Again, I'll start with a big headline, 23 years of consistent financial performance. We had that one slide in there. And regardless of the weather, regardless of the CEO, regardless of the governor, again, Rs or Ds, regardless of the legislature, regardless of the commission, like, we deliver. And I've overused this term probably, but not by luck or accident, right? It's energy law, right? And a lot of that is already set. And it's typically bipartisan when it's done, but that sets a lot of the parameters. And again, when it comes to the commissioners that are on staggered terms, they're 6-year terms, you can only have 2 from one party. And so that sets a lot of the parameters in Michigan. That's the great thing about Michigan.

But remember, as one of the largest investors in the state, the gubernatorial candidates know that. As one of the largest property taxpayers in the state, the gubernatorial candidates know that. As one of the largest job providers and union job providers, the gubernatorial candidates know that, right? And so we have a way of working with these candidates to find solutions. And it goes back to my earlier comment. When I come in and I can bring a gubernatorial candidate, 2 pages front and back of good policy solutions, what happens in that discussion, right? All of a sudden, I'm in their boat, right? I'm in there helping them be successful.

And now when they're out with constituents, they can point to say, here's the 3 things. Here's the 6 things. Here's the 10 things we can do in Michigan to help make bills even more affordable. And remember, we're starting from a really good starting spot. And so I mean, that's the dynamic that plays out, and that's how it allows us to be successful time and time again. So hopefully, that scratches the itch to your question there, Jeremy.

Operator

The next question comes from Andrew Weisel from Scotiabank.

Andrew Marc Weisel
Scotiabank Global Banking and Markets, Research Division

You covered a lot of the main topics, so I've just got 2 sort of more nuanced ones. First, on equity. Obviously, as you kind of previewed a tick up from \$500 million last year to \$700 million this year to an average of \$750 million in the long-term plan. How should we think about that going forward? Should it be consistent? Should it be ramping up to match the CapEx profile? Or would it be more front-end loaded given the lag of cash recovery for generation relative to distribution? And does that assume additional use of hybrids or JSNs? Or would hybrids potentially reduce the equity needs?

Rejji P. Hayes
Executive VP & CFO

Andrew, it's Rejji. I appreciate the question. I'm getting to a point age-wise when I get multipart questions, I may have to circle back. So if I miss something, just let me know. But with respect to equity, I think you -- the premise of your question is right. I mean, they tend to increase with CapEx needs. And so this plan is \$4 billion higher with \$24 billion of CapEx at the utility than the prior vintage of \$20 billion. And so we've said with that historical sort of ratio of \$0.40 of equity for every dollar of incremental CapEx. This plan has about \$1.5 billion or so of greater equity needs than the prior vintage. Specifically, prior vintage was \$2.2 billion in aggregate, this one is about \$3.75 billion. So again, that historical relationship still ties and that allows us to maintain that kind of mid-teens credit metric levels on a consolidated basis, which is where we like to be.

With respect to junior subordinated notes, we do have a little bit of those in the plan over a 5-year period. I'd say just over \$1.5 billion. It's a market that we've just seen -- quite pleasantly, we've just seen an increase in breadth and depth of liquidity in that market, and we've seen really strong execution, most notably over the last 36 months or so. So we have baked in a little bit of that in the plan, not in this year, but later on, say, more '27, '28. So we do have, again, a little over \$1.5 billion of junior subs in the plan, just given the strong execution we've seen historically. And then with respect to the shaping of the equity needs, I would say it's, again, fairly commensurate with the capital needs and the capital needs are somewhat front-end loaded. If you look at the details on the CapEx plan we have in the appendix in the deck for today. And so we anticipate issuing a good portion of that in the first 3 years of the plan and then it levels out, really kind of -- really drops off in the latter 2 years.

Now we will be opportunistic as always. And if we see our stock trading at levels that are not offensive, and I would submit they are offensive where they are today, we'll be opportunistic. But the plan for this year is to dribble out that \$700 million. And over time, again, if we see the stock trading at levels that we think are more reasonable, we may be a little bit more aggressive than that. So let me pause there and see if that's helpful.

Andrew Marc Weisel
Scotiabank Global Banking and Markets, Research Division

It is. And your memory is still intact. You got all of those. Next one, you previously talked about a \$20 billion CapEx plan with \$25 billion of incremental opportunities. Now you're guiding to \$24 billion. Should we think of that as pulling from the opportunities bucket into the formal plan? Or is this more like an incremental \$4 billion that you've identified and you still have a similar opportunities bucket beyond the new outlook?

Rejji P. Hayes
Executive VP & CFO

Yes. So great question. And I would say in terms of that \$25 billion of backlog we've been talking about that's outside of the prior plan looking in, yes, we certainly dipped into that with the \$4 billion incremental. But I would say it's not a perfectly symmetric equation because the reality is we have additional CapEx needs as we're preparing this new integrated resource plan that will likely drive additional CapEx needs. As Garrick and I noted earlier, our plan does not presuppose us realizing some of these large data center opportunities from a customer investment perspective. And so that would add to that backlog as well.

And then I would also just note in this plan, obviously, with the growth of financial compensation mechanism-related earnings, we are taking some of that CapEx opportunity and converting it into PPAs. And so we have dipped into that well. But I would say from where we sit, the well is quite infinite when it comes to CapEx backlog at the utility, and it just grows every year because there's a lot to do on both the distribution side and the supply side, and electric and gas has quite a bit to do as well.

Operator

The next question comes from Anthony Crowdell from Mizuho.

Anthony Christopher Crowdell
Mizuho Securities USA LLC, Research Division

Rejji, really happy that CMS is still serving caffeinated coffee in the employee kitchen. Just one loose end. You're currently asking for a decoupling in your gas case. Just curious if you plan on -- I know I'm digging forward, you're currently in an electric case now, thinking in your next electric case, do you ask for decoupling or given the load that you're showing a big increase in industrial load in 2025, if you're less inclined to ask that given the strong load growth?

Rejji P. Hayes
Executive VP & CFO

Anthony, I appreciate the question. And as always, we show up for these calls well caffeinated. So glad you noticed. Yes, our intent is to just focus on revenue decoupling in the gas business. We have looked historically at the trends in terms of sales for our electric business and just don't see the need to look to do that for the electric business. So the intent right now is the gas -- just for the gas business. That's what's embedded in this pending case that we filed in mid-December and really no appetite at the moment to look at that from an electric perspective.

Garrick J. Rochow
President, CEO & Director

Go ahead, Rejji.

Rejji P. Hayes
Executive VP & CFO

Anthony, the only other thing I would note is that it is actually not permitted to utilize decoupling in the electric business. That is actually a part of the legislation that's been passed.

Operator

Final question today comes from Bill Appicelli from UBS.

William Appicelli
UBS Investment Bank, Research Division

Just had a question around the 3% residential bill inflation. Maybe you could just unpack a bit when we think about 10.5% rate base growth. So how much are you managing with the CE Way? And then do you have anything else on the affordability side that can help, right? So I think in the past, you've talked about some higher-priced PURPA contracts that roll off. Maybe you could just speak to other tools that are there to manage the affordability.

Rejji P. Hayes
Executive VP & CFO

Yes, Bill, thanks for the question. And I think you've hit some of the key items that drive that downward pressure on bills and rates every year. And so we've been at this, as Garrick noted earlier, for multiple decades now where we really try to self-fund a lot of that rate base growth. And for, I'd say, 2 decades, it's been episodic cost reductions, good decisions, and we certainly are assuming that, that we do have high-priced PPAs that will be rolling off over time.

At some point, we'll be out of coal. And so that will drive cost savings as well. And those are a bit more episodic. But the CE Way just continues to offer more and more savings each year. And I'll remind everyone that we instituted it only about a decade ago. So we think we're just scratching the surface. And I remember going back to 2018, 2019, we delivered probably just under \$10 million of operating expense reduction from the CE Way.

And we were high-fiving because we were in year 2 -- 1 or 2 of instituting the CE Way. And as Garrick noted, just this past year, we did another year of \$100 million of savings. So a lot of opportunity there. But what we're really excited about, again, in terms of levers or opportunities to just self-fund our growth is just converting on this attractive economic development backlog. That, to me, is really the third leg of the affordability stool, where you know that we're very strong in delivering on the cost performance side.

But if we can also convert, not even all, but just a portion of this economic development backlog, you can see that it just drives great downward pressure on bills and rates and funds a lot of these needed customer investments that we have across our electric business. And that's why we provided that sensitivity in one of the slides Garrick spoke to, we basically have shown that with a gigawatt of conversion on this economic development, backlog associated with the large load tariff, that drives about 2 points of reduction in that bill CAGR. So again, a lot of arrows in our quiver, and we look forward to continue executing on all of those to create that downward pressure to fund the CapEx plan.

William Appicelli
UBS Investment Bank, Research Division

Great. No, that's very helpful. And I guess one housekeeping item. It looks like the D&A in '28, '29 is about \$100 million lower than the prior guide you had given. Is there anything driving that or despite the fact that the CapEx is higher? So any color there?

Rejji P. Hayes
Executive VP & CFO

Yes. My sense is it's mixed. That's usually what it is because you do have different depreciation rates depending on the assets. The distribution assets tend to be longer lived than the generation assets. And so it's got to be mixed, but the IR team will certainly follow up with you after the call to unpack that some more, Bill.

Operator

This concludes today's Q&A session. So I'll hand the call back to Mr. Garrick Rochow for any closing comments.

Garrick J. Rochow
President, CEO & Director

Thanks, Adam. I'd like to thank you for joining us today. I look forward to seeing you on the conference circuit. Take care and stay safe.

Operator
This concludes today's call. Thank you very much for your attendance. You may now disconnect your lines.

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