JEA's Future

Opportunities and Considerations

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Discussion Topics

- Introduction
- Scope of the Report
- Utility Industry Valuation and Trends
- Valuation Methodologies and Metrics
- Important Considerations
- The Sale Process
- Summary

Introduction: Origins of the Report

- November, 2017 JEA Board Meeting: Questions Posed:

Would the customers of JEA and the people of Jacksonville be better served in the private marketplace?

Should JEA and the City of Jacksonville consider the financial benefits that would come from the privatization of JEA?

- December, 2017 JEA Board Meeting: Follow Up

  … evaluate our prospective position in the marketplace, and report back on what the private market value of JEA may be so the citizens of Jacksonville and the mayor and other constituencies — City Council — can evaluate that opportunity.

- JEA Requests Report from Public Financial Management

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Introduction: Public Financial Management

- Leading Financial Advisor to State and Local Governments
  - Advisory-only business model
  - No underwriting, trading or lending
  - Does not serve as "broker" on utility assets sales

- Industry Leading Municipal Utility Financial Advisors
  - Advisor to over half of the 50 largest public power utilities
  - Leading advisor to large water/sewer utilities
  - Serving as financial advisor to JEA for over 15 years
  - Experience analyzing <u>financial impacts</u> of asset sales/purchases

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Scope of the Report

- Establish the Range of Potential Values for JEA Enterprise(s)
  - Overall combined enterprises perspective (Electric and Water/Sewer)
  - Considering:
    - *commonly accepted valuation methodologies*
    - *utility market conditions and potential buyers*
    - *JEA's financial metrics and condition*
- Discuss Important Considerations and Variables
  - Key valuation drivers
  - Quantitative and qualitative impacts of a sale
- Outline the General Sale Process Stages

<u>The Report is NOT a Recommendation to Sell or Retain JEA</u>

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Utility Industry Valuation Trends

- Prior JEA Valuation Exercises Did Not Conclude that a Sale Was in the Best Interests of the City, JEA or it Ratepayers

- Prior Analyses Performed by PFM and Various Advisors to Other Municipal Utilities Yielded Similar Conclusions

Utility Industry Valuation Trends

Conditions Have Changed

- Financial markets – *reduced capital cost advantage for munis*
- Corporate tax structure – *lower tax rates, faster depreciation/expensing*
- Utility industry – *less capital intensive, greater technology/business risk*

JEA is Also Quite Different Than in the Past

- Recognized as a premier municipal utility
- Top Quartile JD Power customer rankings
- Strong cash flow and financial position
- Significant debt load reduction in recent years
- Attractive asset mix in a strategic, growing region of the Country

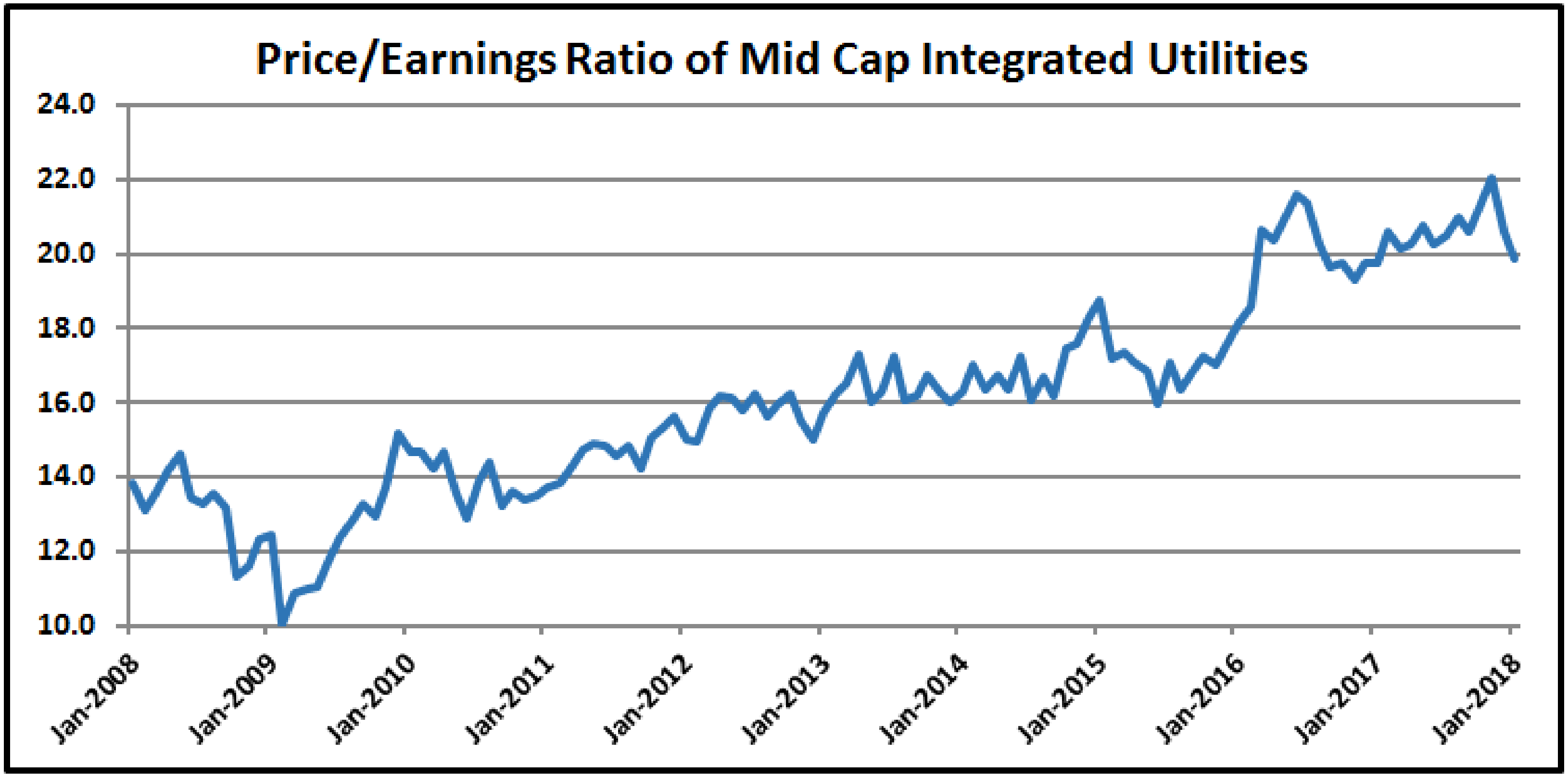
JEA Bond Ratings

Agency	Electric	Water Sewer
Moody's	Aa2	Aa2
S&P	AA-	AAA
Fitch	AA	AA

New Conditions Warrant a New Look at the Old Question

Utility Industry Valuation Trends:

- Recent Very High Values for Utility Stocks and Assets
  - Stock prices: absolute and relative to earnings (Price/Earnings Ratio)



Utility Industry Valuation Trends:

Value Drivers

- Overall stock market conditions have been strong
- Very affordable interest rates for acquirers
- Supply/demand characteristics in the market for utility assets
  - *Utilities see less "organic" growth in their service territory*
  - *Acquisitions provide the most meaningful growth opportunity*
  - *Consolidation has reduced the number of acquisition targets*
  - *JEA's assets and service territory present a unique opportunity*

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Utility Industry Valuation Trends:

Recent Very High Values for Utility Assets

- Merger & Acquisition activity provide price and metric comparables

Buyer	Sempra	Hydro One	Great Plains	Fortis	Dominion	Duke	Emera	Wider Industry Averages
Sold	Oncor	Avista	Westar	ITC	Questar	Piedmont	TECO	
Date	Aug-2017	Jul-2017	Jul-2017	Feb-2016	Feb-2016	Oct-2015	Sep-2015	
Total Value	$18.7 Bn	$5.3 Bn	$11.6 Bn	$11.3 Bn	$6.0 Bn	$6.7 Bn	$10.4 Bn	
Cash Flow Multiple	10.5 X	11.8 X	11.0 X	13.8 X	9.6 X	14.9 X	9.8 X	~12 X
P/E Ratio	27.9 X	24.2 X	21.5 X	22.0 X	19.4 X	30.5 X	28.4 X	~25 X
Rate Base Multiple	1.7 X	1.7 X	1.8 X	2.0 X	2.2 X	2.5 X	1.7 X	~2 X

Valuation Methodologies and Metrics:

- Discounted Cash Flow Projection Model
  - Test a wide range of assumptions and variables

discount rates	growth rates	synergies
rate scenarios	capital program	financial markets
depreciation	taxes and transfers	

  - Narrow outcomes to a Lower to Higher range of results

- Earnings, Times Observed Multiples Ranges, Plus Debt

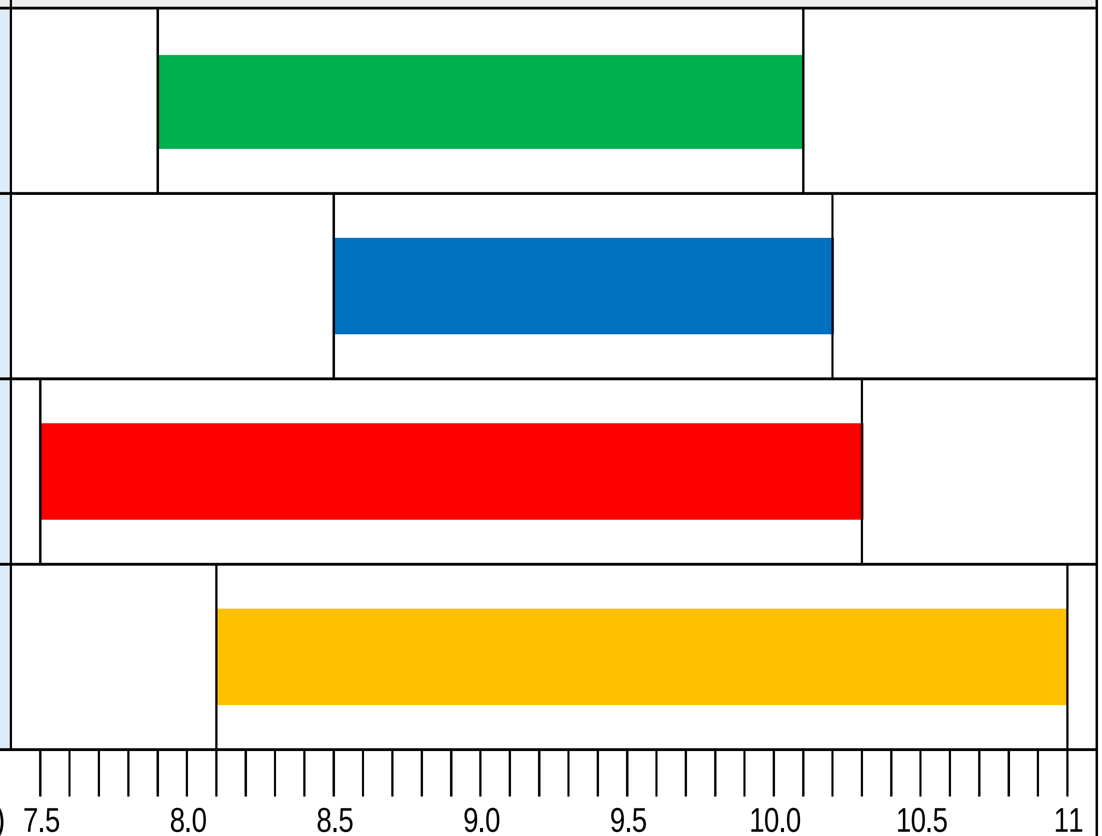
- Earnings before Interest, Taxes, Depreciation & Amortization
  EBITDA or Cash Flow, Times Multiple Ranges

- Property, Plant & Equipment net of Depreciation
  NPP&E or Rate Base Assets, Times Multiple Ranges

Valuation Methodologies and Metrics: Results

Valuation Method/Metric	Lower Values	Higher Values
Discounted Cash Flow	**$7.9 Bn** Mid Discount Rate No Synergies Low Terminal Mult.	**$10.1 Bn** Lower Discount Rate Moderate Synergies Medium Terminal Mult.
Price Earnings Ratio	**$8.5 Bn** Low-Mid Multiple Low Debt	**$10.2 Bn** High Multiple Moderate Debt
Cash Flow Multiple	**$7.5 Bn** Low-Mid Multiple Low-Mid Cash Flow	**$10.3 Bn** High Multiple High-Mid Cash Flow
Rate Base Multiple	**$8.1 Bn** 1.5X Net PP&E	**$11.0 Bn** 2.0X Net PP&E

Range of Indicative Total Enterprise Values for JEA



Enterprise Value ($Bn)

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Valuation Methodologies and Metrics:

- Implied Transaction Value for JEA of $7.5 to $11 Billion
  - Represents ***gross transaction value*** – before retiring debt
  - Very wide range of values based on market comparables

    Example: *NPP&E multiples range from 1.5X to 2.5X*

    PFM NPP&E value used a 1.5X to 2.0X range
  - Case could be made for wider ranges and higher values
  - Position within the range (or outside it) will be a function of terms and conditions imposed on the sale

<u>And all subject to assumptions, market conditions and change</u>

- <u>Net Value</u> Amount is Net of Other Assets and Liabilities

Valuation Methodologies and Metrics:

Estimated Adjustments to Arrive at Net Value

- Cost to retire JEA $3.6 billion debt balance in 2019

  Debt calls and escrow costs expected to be ~$3.9 billion

- Cost to terminate JEA interest rate hedges in 2019

  Termination costs expected to be ~$100 million

- Potential cost for tax-compliance for the debt portion of the Vogtle 20-year nuclear power purchase agreement

  Cost assumed @ NPV of debt service of roughly $1.2 billion over ~20yrs

- Expected excess cash and investments to be available in 2019

  Roughly $600 million assumed available to reduce debt

All of the above figures are subject to market conditions and change

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Valuation Methodologies and Metrics: Net Value

- Adjustments to Gross Value/Price Paid

Estimated Adjustments to Value	Lower Values	Higher Values
Gross Transaction Value	$7.5 Bn	$11.0 Bn
2019 Debt Retirement Cost	($3.9) Bn	($3.9) Bn
Interest Rate Hedge Termination	($0.1) Bn	($0.1) Bn
Vogtle Contract NPV of Debt Portion	($1.2) Bn	($1.2) Bn
Available Cash and Invesments	$0.6 Bn	$0.6 Bn
Net Proceeds after Assets & Liabilities	$2.9 Bn	$6.4 Bn

Important Considerations

- Future Utility Rates – Moving to a Regulated Environment
  - Florida Public Service Commission Regulation
  - Rate freezes can be imposed as a sale condition
  - Examine rate differential under JEA Board vs. FPSC
  - Long-term rate modeling is challenging in a changing market
- JEA Employees
  - Transition, and even discussion, is challenging for the entire workforce
  - Workforce guarantees are a negotiated condition in most asset sales
  - Service and safety continuity are essential

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Important Considerations

JEA City Payments vs. Private Owner Taxes

- JEA currently makes 3 forms of payments totaling roughly $240 million

    City Contribution ***Franchise Fee*** ***Public Service Tax***

- Private utilities have a different tax structure

    Property Taxes ***Franchise Fee*** ***Public Service Tax***

- Sale conditions can be imposed to “hold harmless” the City

- Additional taxes will be paid to other jurisdictions under private owner

    Federal, State, County, Schools

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Important Considerations

Local Economic Impacts and Efficiencies

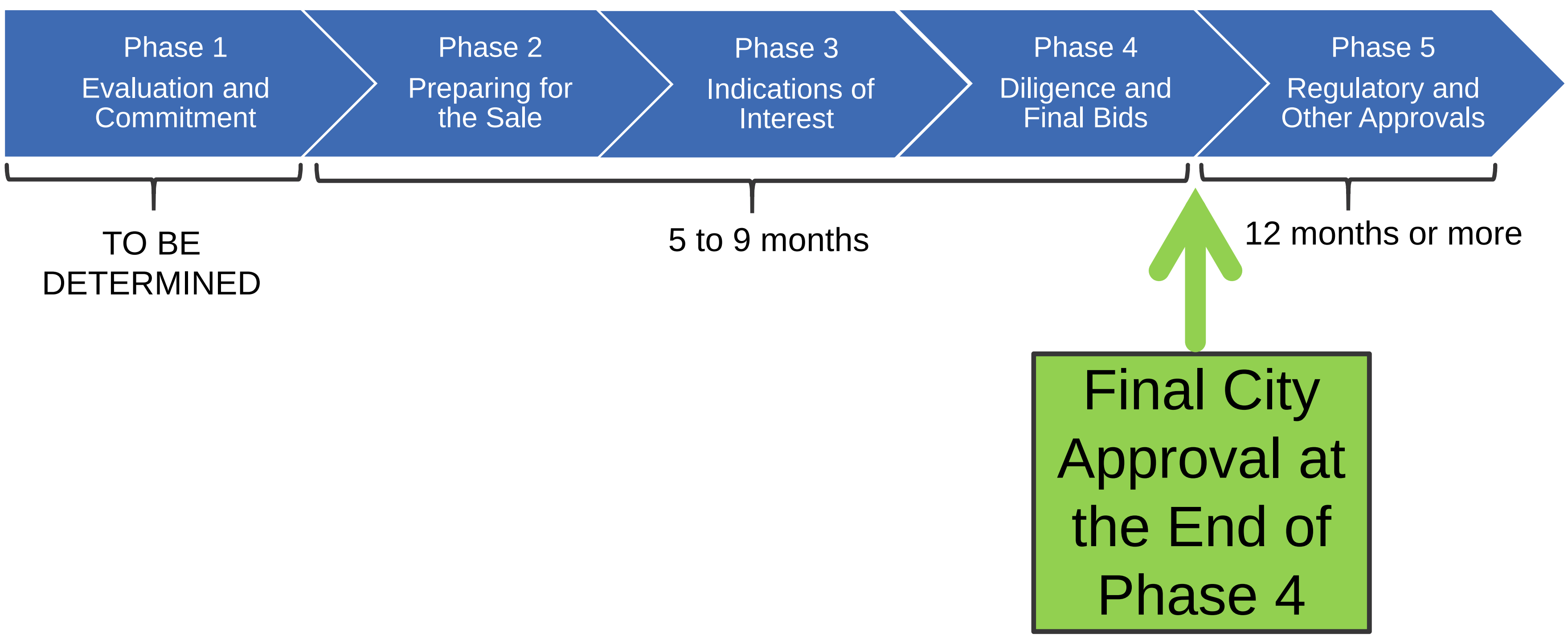
- JEA is a large employer and economic contributor to the region
- JEA has partnered with the City to achieve efficiencies, cost savings, policy priorities
- Sale conditions could include commitments to maintain a presence, and encourage similar levels of cooperation and commitment to the City

Important Considerations

- Execution Complexity and Challenges
  - Existing contractual arrangements
    - Combined real estate and right-of-way agreements
    - Vogtle power purchase agreement
  - Asset sale structure – electric, water, sewer, district energy

The Sale Process: Overview

- Utility asset sales generally proceed through five phases.



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Phase 1- Evaluation and Commitment

- Initial economic evaluation toward developing consensus and commitment to the sale process.
  - Does not mean a commitment to sell, but rather to provide the comfort and guidance to potential buyers that if they undertake considerable due diligence, commit to spend billions of dollars, and achieve the City's economic objectives, that their efforts will likely not be in vain.
- This commitment is essential to generating the greatest level of interest among buyers, and will be important to maximizing value.

Phase 1	Phase 2	Phase 3	Phase 4	Phase 5
Evaluation and Commitment	Preparing for the Sale	Indications of Interest	Diligence and Final Bids	Regulatory and Other Approvals

Phase 2 – Preparing for the Sale

- Engage advisors, prepare sale process, resolve legal, regulatory, and other issues prior to proceeding.
- Determination will be made around whether it is optimal to proceed with a single sale process for the enterprise as a whole or to engage in separate processes for each utility system.
- Develop documentation around the utilities' operation, legal issues, financial disclosures, and other materials are fully prepared.

Phase 1	Phase 2	Phase 3	Phase 4	Phase 5
Evaluation and Commitment	Preparing for the Sale	Indications of Interest	Diligence and Final Bids	Regulatory and Other Approvals

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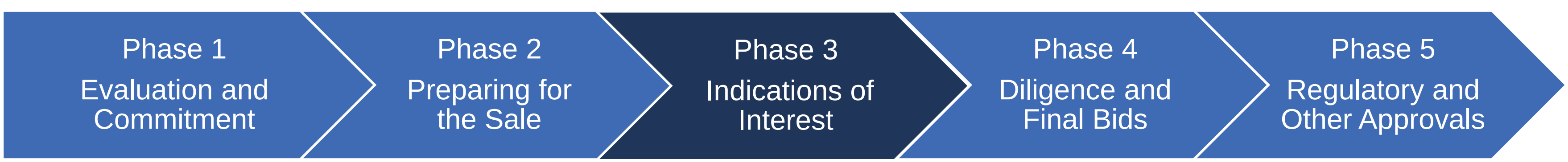
Phase 3 – Indications of Interest

- Seller receives reactions and indications from the acquirers most likely to participate in the next phase of the process.
  - This includes a comprehensive management presentation to potential buyers, and discussions/meetings to determine the buyer’s/bidder’s interest, and their financial and execution capabilities.
- Following this phase, the seller and its advisor will narrow down the acquirers a short list that participates in the second phase of the bid process.



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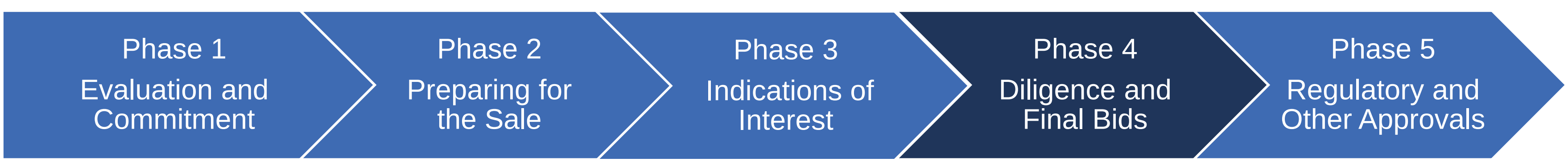
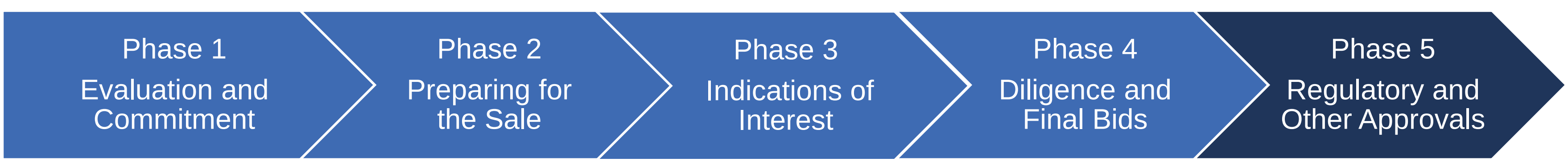
Phase 4 – Due Diligence and Final Bids

- The potential acquiring companies undertake a significant due diligence effort and submit final bids.
- Bids are scored against pre-determined criteria to recommend a successful acquirer(s) and the acquisition contract is negotiated.
- Final terms determined and City approval at the end of this stage



Phase 5 – Regulatory and Other Approvals

- Completion of a process can be lengthy (in excess of a year).
- Approvals will be required from the Federal Energy Regulatory Commission, North American Electric Reliability Corporation, the FPSC, and other regulatory agencies.



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Summary

- The Utility Industry has Changed, and Market Values have Increased Considerably in the Past 5-10 Years
- A Sale of JEA Can Be Expected to Produce Substantial Up-Front Net Proceeds to the City
  - Net Proceeds Could Range from Roughly $3 to $6 Billion
  - Actual Value Will be Highly Dependent on Market Conditions and on Transactions Terms & Conditions
- Selling JEA Would be a Complex Undertaking
- Considerable “Non-Price” Quantitative and Qualitative Impacts

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