Emera 2026 Q2 Conference Call

Transcript – 28:59

8/7/26

OPERATOR

Good morning, ladies and gentlemen, and welcome to the Emera 2026 Q2 conference call. At this time, all lines are in the listen-only mode. Following the presentation, we will conduct a question and answer session. If at any time you wish to ask a question, press star 1. And if you require assistance, please press star 0 for the operator. This conference call is being recorded on August 7, 2026.

I would like to turn the conference over to Dave Bezanson. Please go ahead.

DAVE BEZANSON

Thank you, Sylvie, and thank you all for joining us this morning for Emera's second quarter 2026 conference call and live webcast. Emera's second quarter earnings release was distributed this morning via Newswire, and the financial statements, management's discussion and analysis, and the presentation being referenced on this call are available on our website at emera.com. Joining me for this morning's call are Scott Balfour, Emera's President and Chief Executive Officer, Jared Green, Emera's Chief Financial Officer, and other members of Emera's management team.

Before we begin, I'd like to advise you that this morning's discussion will include forward-looking information, which is subject to the cautionary statement contained in the supporting slide. Today's discussion and presentation will also include references to non-GAAP financial measures. You should refer to the appendix for reconciliations of historical non-GAAP measures to the closest GAAP financial measure. Unless otherwise specified, all financial information referenced is in Canadian dollars. And now I will turn things over to Scott.

SCOTT BALFOUR

Thank you, Dave, and good morning, everyone. Before turning to our quarterly results, I'd like to take a moment to acknowledge a significant milestone in the execution of our strategy. Last Thursday, July 30th, the New Mexico Public Regulation Commission approved the sale of New Mexico Gas to Bernhard Capital Partners, and we expect the transaction to close later this month. We began this process with a strategic plan focused on driving long-term value for shareholders to strengthen our balance sheet and credit ratings, allowing us to prioritize our focus on high-growth core areas of our business. The approval of the transaction advances our strategic objectives while further supporting the investments needed to deliver safe, reliable, and affordable service across our utilities.

While this transaction supports Emera's strategic growth objectives, it is also important to recognize the strength of the New Mexico Gas business and the people behind its success. Since joining Emera in 2016, New Mexico Gas has continued to grow and strengthen its position through disciplined investment, strong operational performance, and the commitment of its employees. We're proud of the progress achieved over the past decade and confident that New Mexico Gas is well positioned for continued success under Bernhard's ownership. We appreciate the Commission's careful review of the transaction and thank the entire New Mexico Gas team for their contributions and dedication over the years.

We expect after-tax proceeds from the transaction of approximately $650 million to $700 million U.S. to be reflected in our third quarter results later this year. These proceeds will be used to reduce holding company debt and enhance our financial flexibility, supporting continued investment across our regulated utility businesses and the opportunities we see ahead.

This morning, we reported second-quarter adjusted earnings per share of $0.69, bringing year-to-date adjusted EPS to $2.06, consistent with last year's very strong performance. These results reinforce our confidence and our outlook. We remain on track to deliver compound annual adjusted EPS growth above our 5-7% target range through 2026, and we continue to expect growth within that range through 2030. Our performance reflects disciplined execution across the business, including continued portfolio optimization, investment in critical utility infrastructure, and strong operational performance across our regulated utilities.

We continue to benefit from strong economic and population growth across our service territories. At People's Gas, recently implemented rates are supporting the investments needed to safely and reliably serve a growing customer base. At Tampa Electric, continued customer growth is driving investment in infrastructure needed to meet increasing demand. Together, these businesses highlight the strength of our regulated portfolio and the opportunities created by Florida's constructive regulatory and economic backdrop. They support continued investment in our systems, drive long-term rate-based growth, and position us to deliver value for both customers and shareholders.

The long-term outlook for Florida remains particularly compelling. A recent Florida Chamber of Commerce report highlighted that if Florida were its own country, it would rank as the 14th largest economy of the world, ahead of Mexico and Australia. With strong population and economic growth expected to continue, there is substantial need to invest in the infrastructure required to meet our customers' evolving energy needs. We're seeing similar momentum in Nova Scotia, where growing economic activity and electrification are increasing demand for energy infrastructure.

We continue to see encouraging activity related to data center development in Tampa Electric's service territory, with opportunities advancing through system planning and evaluation. As required by Senate Bill 484, Tampa Electric is developing a large-load customer tariff that will be filed with the Florida Commission by October 1st. The tariff is designed to ensure new large-load customers pay their fair share of the costs required to serve them, while protecting existing customers and providing a clear framework for future investment. We view this as an important step in the continued economic growth, enabling infrastructure investment, and creating long-term value for both customers and shareholders.

We continue to execute at a high level across our regulated utilities. In the first half of 2026, our teams safely deployed more than $1.7 billion of capital, keeping us on track to execute our largest-ever capital plan of approximately $4 billion this year, and is aligned with our targeted 7% to 8% annual rate-based growth through 2030. We look forward to providing an updated capital plan on our third quarter earnings call later this year.

In Florida, Tampa Electric continues to advance reliability investments and investments required to serve a growing customer base. In Nova Scotia, construction is underway on the Nova Scotia-New Brunswick Transmission Intertie, following receipt of all required approvals. This important project will strengthen connections in the regional grid, support the integration of additional renewable energy resources, and enhance reliability for customers. The project is expected to be completed in late 2028 and reflects our continued ability to deliver large-scale infrastructure investments that support long-term customer and shareholder value.

As announced on our first quarter call, we entered into an agreement to sell Grand Bahama Power Company, and the transaction closed on May 12. The sale is reflected in our second quarter financial results. Combined with the approved sale of New Mexico Gas, these transactions represent important steps in executing our strategy. These strategic actions are enhancing financial flexibility, sharpening our focus on our core regulated utility operations, and supporting continued investment in the higher value and growth opportunities across our portfolio.

In Nova Scotia, we're seeing encouraging progress on the securitization of Nova Scotia Power's retiring thermal assets. Nova Scotia Power is working with the government to provide information in support of establishing a framework that is expected to deliver meaningful long-term savings for customers, while also supporting the federal and provincial government's objectives to phase out coal-fired generation. The team will continue to work constructively with stakeholders on this important affordability initiative, and are encouraged with the progress made towards completing by the end of the year.

I'd also highlight a meaningful reduction in customer rates at Tampa Electric. Effective August 1, customer rates have been reduced by the removal of the storm surcharge associated with the recovery from 2024 hurricanes, resulting in an approximately 11 to 12 percent decrease in residential rates. I'll now turn the call over to Jared to discuss their financial results.

JARED GREEN

Thank you, Scott, and thank you all for joining us this morning. Moving to financial highlights. This morning, we reported year-to-date adjusted earnings of $627 million, up $12 million over last year, and as Scott noted, adjusted earnings per share of $2.06, effectively consistent with last year. Second quarter adjusted earnings were $212 million, or 69 cents per share, representing a 10-cent decrease year-over-year. Earnings growth in the first half of the year contributed to an 8 percent increase in operating cash flow, excluding working capital, compared to the same period last year. Combined with the expected close of the New Mexico gas transaction, these improvements continue to strengthen our credit profile and financial flexibility. We remain on track to achieve Moody's 12 percent operating cash flow pre-working capital to debt target in 2026. With the New Mexico gas sale expected to contribute approximately 50 basis points on a sustained basis.

During the quarter, Moody's revised our credit outlook to stable. Combined with the expected closing of the New Mexico gas sale, this reflects meaningful progress we have made in strengthening our financial position and improving our credit profile. These developments further enhance our financial flexibility and reinforce our confidence in our ability to fund growth while maintaining a strong balance sheet. Year-to-date, Emera Energy delivered earnings that were more than $40 million higher than the same period last year, building on their record first quarter. Results were driven by favorable market conditions early in the year and disciplined execution across the business. People's Gas also delivered strong year-to-date results, reflecting new rates that came into effect on January 1st and favorable market conditions that drove higher off-system sales. These gains were partially offset by lower earnings at New Mexico Gas, primarily due to higher operating and maintenance and depreciation expenses.

At Tampa Electric, year-to-date earnings benefited from new rates approved as part of the 2024 rate proceeding, combined with colder-than-normal weather early in the year and strong operational performance, which contributed to higher off-system sales. These factors were partially offset by increased depreciation, operating and maintenance, and interest expense. Within our corporate segment, you'll recall Emera completed a significant refinancing program ahead of a large debt maturity and planned hybrid redemption in mid-June.

As part of that process, we upsized our hybrid issuance by U.S. $300 million to support future growth while preserving the associated credit benefits. These actions strengthened our funding position and demonstrate continued access to capital on attractive terms. Year-over-year corporate costs reflect higher interest expense from temporarily carrying both the new financing and the maturing obligations for a portion of the year.

Within our Canadian Electric segment, earnings were lower than the same period last year. The decrease was primarily driven by a lower income tax recovery and increased regulatory lag as the implementation of new rates was delayed until May 1st. These impacts were partially offset by higher sales volumes and modestly favorable weather.

Earnings in our other electric segment were generally consistent with the prior year. At Caribbean Utilities, lower income tax expense resulting from the recognition of a deferred tax liability earlier this year was offset by lower revenues and the loss of earnings associated with the sale of Grand Bahama Power Company in May. Year-to-date, a stronger weighted average Canadian dollar reduced EPS by $0.05 and a higher average share count reduced adjusted earnings per share by $0.05. You'll recall we issued approximately 2.7 million shares under our ATM program in Q1.

While some factors influencing our second quarter results were consistent with the year-to-date drivers, there are a few items worth highlighting. People's Gas delivered a strong quarter, with earnings increasing by more than $14 million compared to the same period last year. Results benefited from the new base rates and higher off-system sales, partially offset by higher operating costs and depreciation.

At New Mexico Gas, earnings were affected by higher operating costs, depreciation, and lower revenue as the favorable weather conditions experienced in the second quarter of last year did not recur this year. Earnings contributions from our Florida and Canadian electric segments were generally consistent with the second quarter of last year. At Tampa Electric, higher base rates contributed to revenue growth, partially offset by increased depreciation, interest expense, and modestly higher O&M costs.

At Nova Scotia Power, new rates that took effect on May 1st, together with continued customer growth, contributed to higher base revenues. These benefits were offset by increased depreciation and interest expense. Emera Energy's second quarter earnings were also in line with last year.

Lower marketing and trading margins were offset by higher equity earnings from Bear Swamp, reflecting business interruption insurance proceeds received following an unplanned outage in 2025.

Finally, foreign exchange provided a modest benefit in the quarter, with a weaker weighted average Canadian dollar contributing $0.01 to adjusted earnings per share, while a higher average share count reduced adjusted earnings per share by $0.02. With that, I'll pass the call back over to Scott for closing remarks.

SCOTT BALFOUR

Thanks, Jared. Overall, the first half of 2026 reflects continued progress in executing our strategy and positioning Emera for long-term success. Looking ahead, our focus remains clear. Investing in the infrastructure our customers depend on, capturing the growth opportunities across our regulated utilities, and allocating capital in a disciplined manner. Supported by a high-quality portfolio of regulated utilities, compelling growth prospects, and the strength of our teams, we are confident in our ability to continue to deliver sustainable value over the long term. And with that, we can open the line for questions.

OPERATOR

Thank you, sir. Ladies and gentlemen, if you do have any questions at this time, please press star followed by one on your touchtone phone. You will then hear a prompt that your hand has been raised. And should you wish to decline from the polling process, please press star followed by two. And if you're using a speakerphone, you will need to lift a handset first before pressing any keys. Please go ahead and press star one now if you have any questions.

First, we will hear from Maurice Choy at RBC Capital Markets. Please go ahead.

MAURICE CHOY

Thank you and good morning, everyone. I just want to start with the impending closing of NMGC. Can you just remind us where you anticipate FFO debt to be before and after the transaction closes? And just help us paint the pictures to what is a reasonable buffer you'd like to sustainably have versus downgrade threshold and what they'll take to achieve that.

JARED GREEN

Good morning, Maurice. Jared here. So for the downgrade threshold that we have for Moody's is at 12% of the CFO to debt. We do see ourselves being able to be above that threshold level in calendar 2026. The 50 basis points of annual benefit we would get from the closing of New Mexico gas is helpful in that cushion above the 12% threshold. So we do see ourselves getting there in the calendar year.

The 50 basis points helps for some incremental cushion. But your other point to the question of where are we comfortable for cushion room, I do like having that 50 basis points cushion. I would like to see us being able to have that increase a little bit more through time so that we can just have that extra flexibility to make sure that Scott and the team are able to focus on execution of the business.

And we're able to, again, have that extra little cushion room there. So probably the mid-12s is a good place. But being able to get to the higher 12s over the longer term would be a much better place to be from my happiness.

MAURICE CHOY

That's great to hear. And if I could just finish off with a question on the Maritimes. I guess in July, the three Maritime provinces agreed to work together on their future electricity needs. And that possibly could include a roadmap for transmission by next spring. Just your thoughts on what this means for NSPI. And as a quick follow up, are you seeing any different levels of support from the federal government with regards to initiatives like the former Atlantic Loop project?

SCOTT BALFOUR

Yeah, thanks. Thanks, Maurice. So yes, I mean, I'd say we're encouraged. I think it's quite constructive that the federal government and the provinces are engaged in discussions around how to enhance the infrastructure, how to optimize the infrastructure in Atlantic Canada. You know, looking at a pathway of establishing a regional system operator, I think is quite encouraging and smart and I think would benefit all provinces in the region.

And similarly, yes, you know, as you know, the idea of large scale transmission in Atlantic Canada from east to west to support renewable energy, new renewable energy resources, whether that's wind or onshore or offshore, or, you know, additional nuclear in New Brunswick, if that were ever to happen, I think is something that has captured the attention of all in the region as being an opportunity that could enable economic activity, enable investment in renewable generation and support the broader plans of some provinces and certainly the federal government to continue to eliminate coal based generation and deploy cleaner generation to meet broader Canadian initiatives. So, I think all that's very encouraging and we're pleased to be doing what we can to support those discussions.

MAURICE CHOY

And just on that, are you seeing a different urgency or support from the feds with regards to some of these initiatives than before?

SCOTT BALFOUR

Certainly, I think over the, you know, since the announcement of the major project office and the identification of electric transmission in Atlantic Canada as a potential project of national interest, there's certainly been strong federal government engagement and, you know, we're, as I say, encouraged in that and they're directly engaged in discussions with the provinces and utilities as well. So, yes, relative to where we were two years ago, we're quite encouraged and seeing a high level of interest in discussion and trying to see what's possible.

MAURICE CHOY

Great. Thank you very much.

OPERATOR

Thank you. Next question will be from Ben Pham at BMO. Please go ahead.

BEN PHAM

Good morning. You mentioned the Florida large load tariff filings in the fall. Can you clarify, I know you mentioned discussions with data center companies before. Does this tariff as you envision it of conditions like 50 megawatts and water requirements, lack of socialization and rates, is this going to be the catalyst for advancing your data center initiatives in Tampa Electric?

SCOTT BALFOUR

Yeah, I think Senate Bill 484, I think was helpful in terms of providing clarity as to what the rules of the road are for large load customers. That is helpful to utilities like Tampa Electric, ensuring that there's no cost shift to existing customers, ensuring that there's no negative impact to water supply and the like. And all of that is fully aligned with where Tampa Electric was already and ensuring that to the extent that any large load customers look to the Tampa Electric service territory, not only would they have to pay their full share of cost, but rate structure would in fact support and help reduce cost pressure for customers. Certainly not the opposite. So we see this as something that if it were to happen would be good for our existing customer base and help reduce rate pressure for them while serving a potential new large load.

BEN PHAM

I got it. We did notice one of the utility peers announced redomicile to the U.S. this morning and they referenced 80% of assets in the U.S. and a number of benefits, including inclusion in indices. Is this something that Amir is looking at right now or maybe in the future potentially? Do you see the same benefits and is there any sort of impediments of potentially moving the headquarters for Emera?

SCOTT BALFOUR

Yeah, it's not something that we're looking at at the moment, Ben. And certainly, you know, when you talk about impediments, certainly one of them would be, you know, there would be a significant tax impact from that. But no, not something that we're looking at at the moment.

BEN PHAM

Okay, got it. Thank you.

OPERATOR

Thank you. Ladies and gentlemen, a reminder to please press star one should you have any questions. Next, we will hear from John Mould at TD Securities. Please go ahead.

JOHN MOULD

Hi, morning. Maybe just starting with Nova Scotia and apologies if I missed this off the top. On the securitization front, can you maybe just give us an update where your discussions are at with the government and potentially the regulator just on moving forward with that securitization of the thermal assets? And I asked the question, you know, recognizing that you've got the deferral of WAC in the rate order that was approved. But just wondering if you could give us an update on that as well as, you know, key milestones you're hoping to hit there.

SCOTT BALFOUR

Sure. Vivek, you want to address that question, please?

VIVEK SOOD

Sure. Thank you. Thank you, Scott.

Thank you for the question. I would answer it by saying that we continue to be encouraged with the progress towards getting this done by the year end. And we're pleased with that.

JOHN MOULD

Okay. Great. And then maybe just one more on some of your business development activities. You know, and I can appreciate you're focused on executing on the capital plan. Just wondering what other investment opportunities you might be looking at outside of, you know, your key markets of Florida and Nova Scotia right now. And I'm thinking just as an example of, you know, your engagement in transmission potential investments in Ontario. I'm just wondering as an organization, you know, in the context of obviously executing on your broader capital plan, just where you're spending time looking at further growth initiatives.

SCOTT BALFOUR

Yeah, John, thank you for the question. And you're right, you know, we are looking for other growth opportunities and, you know, something we think of as sort of adjacency opportunities where we can take, you know, experience that we have and bring that to the table with opportunities that would fit for us strategically. And so, you know, one of them would tie in, of course, to Maurice's earlier question and the potential opportunity for there to be large scale transmission build in Atlantic Canada to support Premier Houston's offshore wind ambitions to potentially support more onshore wind in the Maritimes. And so, you know, that's certainly something that we are that we are looking at and engaged in discussions on with others.

And then similarly in Ontario, as you mentioned, as you know, in Ontario, they are looking at a HVDC connection between Darlington Nuclear Station and the Portlands in Toronto that would run along Lake Ontario. So it would be marine based. And as you know, that's, you know, that's something that we know a little bit about with the Maritime Link experience and the technology that is being looked at there is near identical to what is in place for the Maritime Link that we, of course, developed, built and are currently operating.

So, you know, depending on how the, the procurement process unfolds there, that's certainly another project that we are actively engaged in with a, in a partnership and encouraged about. So, those kinds of opportunities are certainly on our radar and quite excited about what we're seeing in terms of a broader opportunity set as it relates to as it relates to potential opportunities like that.

JOHN MOULD

Okay, that's great. I'll get back in the queue. Thank you.

OPERATOR

Thank you. And at this time, it appears we have no other questions registered. Please proceed.

DAVE BEZANSON

Thank you all very much for your interest and support in Emera and have a great, great weekend.

OPERATOR

Thank you, sir. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending. And at this time, we do ask you to please disconnect your lines.