

Event ID: 139482396332

Event Name: Black Hills Corp To Acquire Sourcegas Holdings LLC -  
Conference Call

Event Date: 2015-07-13T12:30:00 UTC

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C: David Emery;Black Hills Corp.;Chairman, President & CEO

C: Rich Kinzley;Black Hills Corp.;SVP & CFO

P: Dan Eggers;Credit Suisse;Analyst

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+++ presentation

Operator^ Good day, ladies and gentlemen, and welcome to the conference call to discuss Black Hills Corp.'s announcement to purchase SourceGas. My name is Nicole and I will be your coordinator for today. (Operator Instructions). As a reminder, this conference call is being recorded for replay purposes. I would now like to turn the presentation over to Mr. Jerome Nichols, Director of Investor Relations of Black Hills Corp. Please go ahead, sir.

Jerome Nichols^ Thank you, Nicole. Good morning, thank you for joining our call this morning to discuss the acquisition of SourceGas that we announced last evening. A copy of the news release and other information about the acquisition is available on our website at [www.blackhillscorp.com](http://www.blackhillscorp.com).

Today's call is being webcast and there is an accompanying slide presentation that can be viewed or downloaded from the Investor Relations section of our website.

Presenting on the call today are David Emery, Chairman, President and Chief Executive Officer, and Rich Kinsley, Senior Vice President and Chief Financial Officer. Following their remarks we will open the call for investor questions.

During our discussion today some of the comments we make may contain forward-looking statements as defined by the Securities and Exchange Commission and there are a number of uncertainties inherent in such comments. Although we believe that our expectations and beliefs are based on reasonable assumptions, actual results may differ materially.

We direct you to our news release, slide 2 of the investor presentation on our website, and our most recent Form 10-K and form 10-Q filed with the Securities and Exchange Commission for a list of some of the factors that could cause future results to differ materially from our expectations. I will now turn the call over to David Emery.

David Emery^ Thank you, Jerome. Good morning, everyone. Thanks for joining us this morning. We appreciate your attendance. I'm excited today to announce that yesterday Black Hills Corp. entered into a definitive agreement to purchase SourceGas from Alinda and GE Financial Services for a total consideration of \$1.89 billion.

SourceGas serves approximately 425,000 natural gas utility customers in Arkansas, Colorado, Nebraska and Wyoming. Ever since we closed on our acquisition of five utilities from Aquila back in 2008, we've been looking for another large-scale utility acquisition. We've evaluated and attempted to purchase several relatively large utilities over that time period. And while we purchased many smaller systems, our efforts to purchase a large one have not been successful.

Frankly, those properties were not strategic enough for us to justify the substantial value premium that we would've had to pay in order to purchase them.

SourceGas is different. We have recognized the potential value to us for a long time and we've approached the sellers numerous times over the last five years. It's a more strategic opportunity to Black Hills than any of the other utilities we've looked at since our Aquila transaction. It will supplement our strong earnings growth, improve our financial strength and help us create significant value both for customers and shareholders.

As part of our due diligence effort related to the acquisition, in addition to our team and that of Credit Suisse, we also engaged the services of [Strategy And] to help us identify opportunities to create the value for customers and shareholders through the purchase. The combined company will be more efficient allowing us to cost effectively provide safe, reliable and affordable natural gas services to our customers for years to come.

Moving on to the slide deck here starting on slide 4, Acquisition Highlights. As I said before, this acquisition is a great opportunity for us. It fits our growth strategy and adds tremendous benefits for customers. We'll be a stronger utility, larger operating scale allowing us to more efficiently deliver services to our customers.

It will increase our geographic and regulatory jurisdiction diversity. The significant expansion of our already existing presence in Colorado, Nebraska and Wyoming and adds another jurisdiction the state of Arkansas. It will increase our customer base by about 55% to more than 1.2 million electric and natural gas customers.

It will improve our financial strength. It will be meaningfully accretive to earnings per share, and I'll elaborate a little bit more on that later. It unites two utility companies both with above average industry growth rates. And it delivers on our commitment to continue to grow earnings and create long-term shareholder value.

Slide 5, an overview of the transaction. We signed the transaction yesterday afternoon with Alinda and GE Financial services who jointly owned that business before. As I said earlier, it's \$1.89 billion in total consideration. That number includes the reimbursement of an estimated \$200 million in additional capital expenditures through closing and the assumption of about \$720 million of projected debt at the time of closing.

If you take into account the approximately \$150 million worth of tax benefits that result from the transaction, the effective purchase price is \$1.74 billion. Those income tax benefits result from a step up on assets and acquired NOLs, again with the present value approximately of \$150 million. The effective purchase price of \$1.74 billion represents about 1.9x our projected rate base at the time of closing of about \$900 million.

From a financing perspective we have a fully committed bridge for the transaction provided by Credit Suisse. And then in addition, due to the assumption of \$720 million of SourceGas debt, our permanent financing will consist of equity and equity linked securities in the range of \$575 million to \$675 million, \$450 million to \$550 million worth of debt, and then the remainder with cash on hand and a draw on our revolver as needed.

Required approvals -- the deal requires approval from the utility commissions in all four states plus Hart-Scott-Rodino antitrust clearance. We would expect to close some time during the first half of 2016.

On slide 6, the strategic rationale for this transaction is really compelling. It definitely fits our regulated growth strategy, like I said earlier. It's a highly complementary fit with us already operating in three of the four SourceGas states.

It diversifies our territory into the new state of Arkansas for us [adding] strong customer growth in a constructive regulatory environment. We are excited to be going to Arkansas. The transaction enhances our scale and drives more efficient delivery of service to our customers. It also provides us with significant rate base growth opportunities with a high degree of short-term visibility on those expenditures.

From an earnings perspective we expect this to add meaningfully to EPS beginning the first calendar year after closing and certainly it will continue to strengthen the earnings mix from our regulated utilities. The increase predictable and stable cash flows will help support our dividend track record, one of which we are very proud of.

And then finally, from a risk and credit profile this strengthens our already excellent business risk profile rating. It will reduce the overall impact of earnings volatility from our oil and gas business and support our continuation of a solid investment grade credit rating. We have communicated with all three agencies and have told them we intend to take the steps necessary to maintain our investment grade credit rating.

The map on slide 7 does a great job of illustrating the complementary nature of our combined utility service territories. It's pretty apparent looking at the map how complementary this acquisition really is to Black Hills.

Moving on to slide 8, SourceGas' service territory is very similar to ours much of it serving predominantly rural areas. There are some larger communities, but a lot of the territory is rural in nature. They have a

similar annual gas volume throughput as we do and they also have very strong EBITDA and rate-based growth rates.

The customer mix is also similar to that of Black Hills with a high proportion of residential customers. We like that it doesn't make us heavily reliant on a single industry, or a single customer class for our revenues. In addition, their customer base is well dispersed throughout their four state service territory.

Moving on to slide 9, one of SourceGas' true strengths is its organic growth opportunity. They have a detailed forecast of more than \$600 million of long-term pipeline safety and integrity investments; many of those investments are rider eligible from a ratemaking perspective.

They've had a solid 2% annual customer growth -- expect that to continue. That comes from a combination of residential and commercial growth as well as fuel conversions supported by some innovative programs and tariffs for residential, agriculture and poultry customers. They have main extension tariffs in all four states, some pipeline and storage investment opportunities and certainly a great potential for a cost of service gas program.

As you know at Black Hills we've been working to implement a cost of service gas program to provide a portion of our gas supply for our own utilities. The SourceGas acquisition essentially doubles that long-term opportunity for us.

On slide 10, I characterize SourceGas's four states of operations as having constructive regulatory environments. They have good mechanisms such as forward test years, integrity riders and weather normalization. That concludes my remarks for now. I will turn it over to Rich Kinzley, our CFO.

Rich Kinzley^ Thanks, Dave. On slide 11 you see strong historical and projected growth in EBITDA and rate base, both with forecasted CAGRs in the 7.5% range from 2012 through 2016. SourceGas management has done a great job executing a solid growth plan over the last few years by implementing coordinated regulatory, operational and financial efforts.

As you saw in the previous slide, SourceGas has constructive regulatory mechanisms throughout its states, including reliability and safety/integrity riders. This year SourceGas projects investing over \$200 million in its utilities, much of which is associated with integrity riders.

Capital is also being deployed related to growth in SourceGas service territories both for large industrial opportunities, most notably in Arkansas, and residential and commercial growth, which, as Dave noted, is in the 2% range.

The large increase in rate base in 2015 is explained by this capital program as is the increase in EBITDA in 2015. Much of the impact of this capital program from an operational results perspective spills into 2016.

So the substantial increase in projected EBITDA in 2016 is due in part to this capital program. The EBITDA increase in 2016 is also favorably impacted by the forecasted outcome of the pending rate case in Arkansas and by residential and commercial load growth mentioned earlier.

Finally, operational efficiencies we estimate when combining the SourceGas utilities with ours contribute to the 2016 projected EBITDA increase.

Turning to slide 12, you once again see the map that shows the intuitive overlay of the SourceGas and Black Hills utilities. Combining these two companies increases our employee and regulated utility customer numbers by over 50%. Also, our EBITDA rate base and ongoing utility CapEx increased substantially.

Looking at 2016 and beyond we expect about one-third of our combined gas and electric utility investments will be associated with regulatory riders, reducing regulatory lag and improving returns.

Slide 13 demonstrates the notable increase in size and scale this transaction brings to Black Hills; this will provide us with many opportunities we don't currently enjoy including further economies of scale, increased liquidity and access to capital markets and the potential for additional acquisitions.

On slide 14 we address regulatory approval considerations associated with the transaction. As Dave mentioned earlier, we will need to apply for and receive regulatory approvals in four SourceGas states. We have excellent regulatory relationships in Colorado, Nebraska and Wyoming and look forward to working with the regulators in Arkansas to achieve approval of the transaction. We expect to receive approvals in all four states and close the transaction in the first half of 2016.

We have deep experience in our management employee ranks acquiring and integrating utility acquisitions. Slide 15 lays out our track record of successfully acquiring and integrating many utility properties over the past decade. Most notable of these were the Cheyenne Light utility in 2005, the Aquila utilities in 2008 and the [Energy West] utility just this year. We've also acquired and integrated numerous smaller municipal and private utilities.

When we acquired the Aquila utilities in 2008 we spent the next two years successfully implementing scalable customer service, accounting and other operational systems and processes as we envisioned additional acquisition opportunities. We look forward to completing this transaction and welcoming the SourceGas utilities and employees to the Black Hills team. And with that I'll turn it back to Dave.

David Emery^ Thank you, Rich. Slide 16 reiterates the transaction highlights and benefits I discussed at the beginning of the call. We are excited about the purchase of SourceGas. Our scalable utility systems platform, which Rich just referenced, combined with our extensive utility integration experience, make us very confident in our ability to quickly and efficiently integrate SourceGas into the Black Hills Corp. family.

It is a very well-run company with a strong employee team, a well-defined growth strategy, a strong safety culture and excellent customer service. It is truly a great fit for Black Hills Corp. We are excited to get the transaction completed. With that we'd be happy to open it up to any questions.

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Operator^ (Operator Instructions). Dan Eggers, Credit Suisse.

Dan Eggers^ Just following up the financing plans. How are you guys thinking about the comfort from the agencies on the amount of debt that's being used in the transaction -- I guess part one of that question?

And then part two, how should we think about your funding plans as an ongoing business given the fact that you have another layer of reinvestment in utilities in excess of the cash you're generating from the business?

Rich Kinzley^ Yes, on the first part of that, Dan. Of course we've been in contact with the rating agencies, but our commitment in financing the transaction is that we will do it in a way that keeps our strong investment grade rating, as Dave said earlier. I'm sure they will come out with comments this week, but conversations have been positive so far.

Relative to the ongoing CapEx, we should be able to -- certainly this is going to generate additional cash flow. We are still refining our forecasts in detail in terms of the whole company, but we think it's not going to be problematic to be able to, between our generated cash flow and then what financing needs we need to continue to, after the acquisition, fund things without hopefully having to issue more equity beyond what we need to for the acquisition.

Dan Eggers^ Okay. And then I guess just on the gas reserves and rate base opportunity, a lot of similar state overlap. How much gas opportunity would there be if you were to source the gas for the customers that way? And then are there any differences in their jurisdictions that might affect their ability to put gas reserves in rate base?

David Emery^ Yes, there are some differences. SourceGas has what they call a choice gas program which provides essentially for supply alternatives for customers, really almost like a short term duration lock on prices, but the gas can potentially come from either SourceGas or a third-party provider.

So when we look at integrating a cost of service gas program with SourceGas, we obviously have to work through the differences in the programs. One is very short-term in nature for customers. The cost of service gas program is very long-term in nature.

So we will have to resolve the differences going through the utility commission approval process could. We don't view that as particularly complicated. It just may take a little more time in their territories

than it will in ours, which we've stated our intent to try to file for approval in our territories yet this fall.

Now from a size perspective, the first part of your question, we are looking at a long-term objective of providing about 50% of our gas from cost of service gas. For us that runs a little less than 40 billion cubic feet a year. The volume for SourceGas would be very similar to that, maybe slightly less, if we provided 50% for their territories as well. So like I said earlier, it really almost doubles that opportunity, Dan.

Dan Eggers^ Got it. Good. And then I guess just one last question. Just on the 2016 EBITDA guidance for SourceGas or the projection. That includes some level of synergy. Can you maybe share maybe how much that is or what the opportunities are to maybe see better as you integrate that business?

David Emery^ Yes, it's a relatively small amount of short-term synergies and obviously you've got costs to achieve and other things. The way we view the synergy opportunities here is really it's more about long-term savings for customers. I think we see some great opportunities obviously to combine the two companies and make them very efficient. Just looking at the footprint, that's pretty obvious.

We think that's a long-term proposition. We'll take a few years to get it implemented. And really where we see the impact it certainly will start to show up on earnings. But I think in future rate cases it certainly will either defer those rate cases or make the requested increases smaller. So we expect there to be some, but a lot of it I think will be at least after the first couple years to the benefit of our customers.

Dan Eggers^ Great. Thank you, guys.

Operator^ [Insoo] Kim, RBC Capital Markets

Insoo Kim^ First question, are you able to give any numbers around the accretion assumptions post the deal?

Rich Kinzley^ At this point we are not going to disclose any of that. We are certainly still refining our projections. We did merger level diligence associated with this, so now that the deals announced we expect to be able to dig in a lot deeper and really be able to refine those assumptions.

David Emery^ Yes, we do expect it to be pretty meaningfully accretive in that first full-year after the deal. And as we get closer to that time, and certainly after we close, I would assume we would update our earnings guidance accordingly.

Rich Kinzley^ Right.

Insoo Kim^ Okay. But it's not something that you guys are planning to release or guide in the coming quarterly call?

Rich Kinzley^ No.

David Emery^ No.

Insoo Kim^ Okay, got it. And then regarding the different gas utilities for SourceGas, are you -- what is the average allowed ROEs and how that compares to the earned ROEs at the different utilities there?

David Emery^ I would say in their jurisdictions their ROEs are very similar to ours. There in that 10% plus range, some of them a little bit better, high 9s. And from our viewpoint obviously in Arkansas they've got a case pending, I think it's a \$12.6 million case. So obviously they feel there's a need to increase revenue there. The other territories -- they are doing relatively well against those allowed numbers.

Rich Kinzley^ I've got something in front of me here -- their average allowed ROE across the jurisdictions is about 9.7%, 9.8%, right in there. So --

David Emery^ Which is very consistent with ours in the similar territories. Arkansas, obviously, is a different state but the others are pretty much in line with what we're earning.

Rich Kinzley^ Right.

Insoo Kim^ Got it. And could you tell me what the 2014 net income was for SourceGas as a whole?

Rich Kinzley^ I can. Net income was about \$35 million. EBITDA about \$115 million.

Insoo Kim^ Got it. And then I guess last question, what was -- one of the options for financing this potentially selling off some of the non-core EMP assets, or --. Did you guys pursue that strategy and decide not to do that for various reasons?

David Emery^ We have not yet decided if we want to divest any of those oil and gas assets, but certainly we talked about having alternatives for some of our oil and gas properties as we prove up the Mancos and that opportunity. We've talked about only needing part of a shale gas opportunity to provide our cost of service gas program, for example.

If we have the opportunity to double that cost of service gas program the amount of excess gas we might have there obviously goes down, but there's still quite a bit there. So as far as pursuing those opportunities on what we are considering with E&P we will continue to do that.

If by chance we find something that makes sense between now and closing, obviously that would be a benefit, but we are not actively pursuing or pushing for any kind of a sale of our oil and gas assets at the current time.

Insoo Kim^ Got it. Thank you very much.



Operator^ (Operator Instructions). I'm showing no further questions at this time. I'd like to hand the call over to David Emery for any closing remarks.

David Emery^ Thank you, everyone. We appreciate your time and attention this morning, thanks for your interest in Black Hills. We are truly excited about this SourceGas acquisition, another great transformation for Black Hills Corp.

And we are excited to get on with the work here of filing for regulatory approval and hopefully closing the purchase here in the first half of next year and then integrating it as quickly and as efficiently as possible. Have a great day.

Operator^ Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Have a great day, everyone.