UTM Capital Management Student Research

Commodities and Utilities Team

Fortis Inc.

Ticker: TSE: FTS

Date: April 2, 2020

Closing Price: $51.52

Recommendation: Buy

Estimated Fair Value: $62

Current Trading Discount: 20.3%

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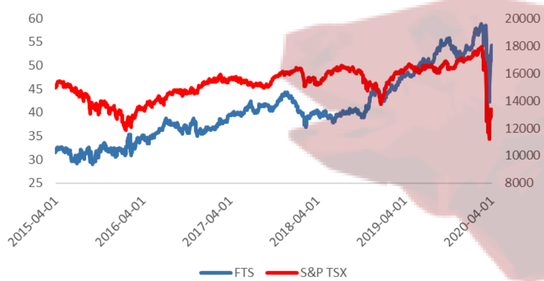
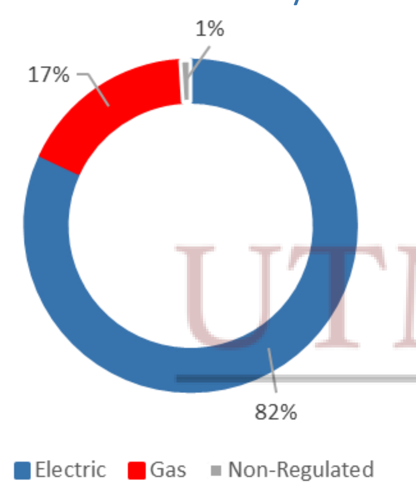
FTS VS. S&PTSX



Asset Diversification by Sector



10 Year Treasury Yield

Executive Summary:

Fortis is a power transmission and generation company based out of Newfoundland, Canada. They operate across Canada, the United States, and the Caribbean with approximately 9000 employees.

Investment Recommendation:

We are issuing a buy recommendation for Fortis to act as a bond proxy, if valuing Fortis like a bond we believe its fair value would be $62.

Investment Thesis:

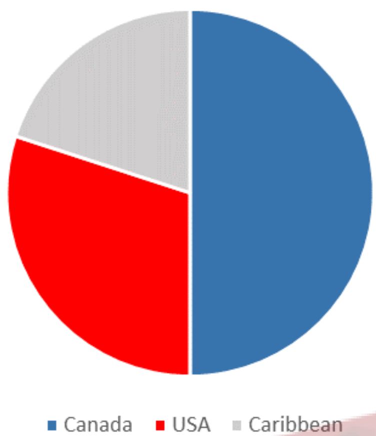
Bond Like Qualities: The core factor behind our buy recommendation for Fortis is that it has many bond like qualities that allow it to act as a potential substitute for investment grade bonds in ones portfolio in the current low interest rate environment causing bond yields to be extreme lows by providing predictable low volatility cash flows with limited risk.

Diversified Asset Base: Fortis has a long lost of subsidiaries across North America protecting it from natural disasters in one region. Most utilities companies operate in one area as it is a fairly regional business. This provides Fortis additional stability in an industry that is considered safe.

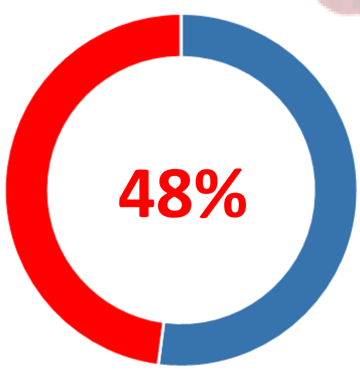
Strong Defensive Positioning: Fortis has developed a strong foothold in over a dozens regions. What makes this so important is that both power generation and transmission are extremely capital intensive with high government regulations, creating difficulties for potential new entrants.

High Credit Rating and Low Volatility: Fortis has received investment grade credit ratings across the board, along with extremely low stock price volatility and a market Beta below 0.3. When considering this along with its steadily improving margins, Fortis is the peak of stability. It is a company that does not change much and that is ideal for a bind proxy, when bond returns are lower than they have been in almost a decade.

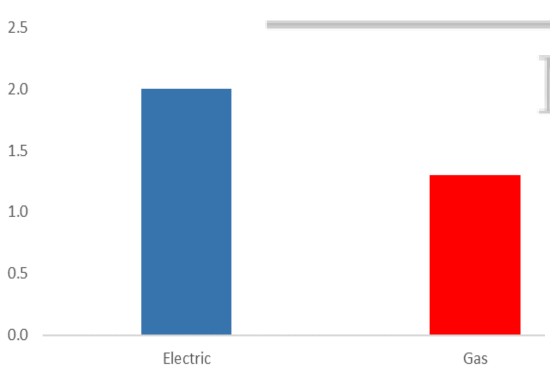
Distribution of Subsidiaries



ITC Acquisition Price as a Percent of Fortis Today



Customer Distribution (millions)



Business Description

Fortis is a Utilities Holding Company headquartered in St. Johns, Newfoundland and Labrador. Since its formation in 1984 with just $390 million in assets Fortis has grown from a former subsidiary to an international utilities company with over $53 billion dollars in assets today. Through its 10 subsidiaries Fortis operates in Canada, the United States and across the Caribbean, serving over 3.3 million customers. Fortis provides services in both the strictly regulated as well as unregulated utilities industries.

Power Transmission

Fortis has had rapid expansion into the United States in recent years, which can be directly linked to its increased presence in the power transmission side of the utilities industry. This increased presence has been a direct result of Fortis' acquisition of ITC Holdings in 2016 with an 11.3 billion dollar deal. Before said acquisition ITC holdings was the largest power transmission companies in the United States, giving Fortis a share of the power transmission market dwarfing what it had previously held. With continued expansion into power transmission since the acquisition of ITC, it now exceeds Fortis' other business segments to become its primary revenue driver now and in the future. ITC Holdings operates in Michigan, Iowa, Minnesota, Illinois, Missouri, Kansas, and Oklahoma. All with the expectations on focusing on new areas where transition systems where transmission systems will need future improvement.

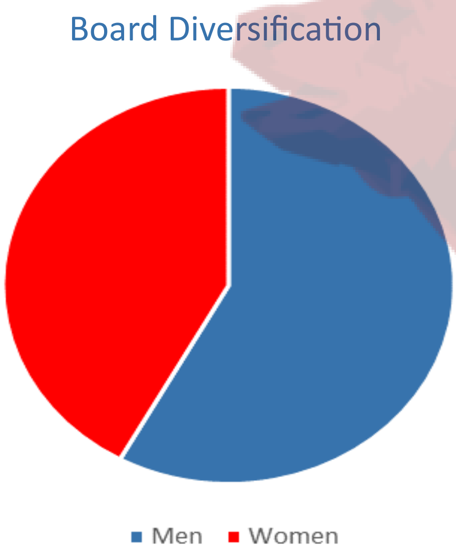
Electricity Generation & Natural Gas

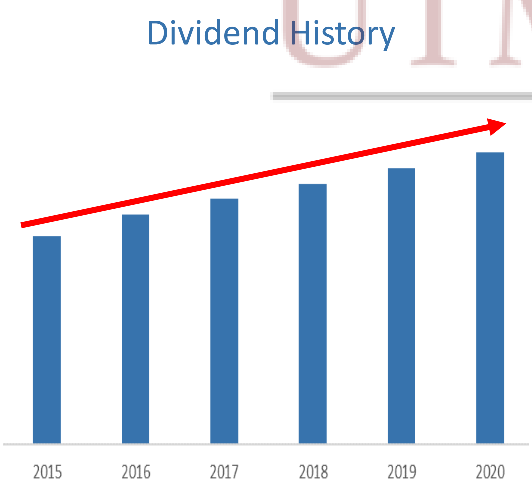
Of Fortis' 3.3 million customers serviced, approximately 1.3 million are through their natural gas division across all regions the company operates in.

Fortis provides electricity and natural gas across Canada through FortisAlberta, FortisOntario, Maritime Electirc, Newfoundland Power. and FortisBC. While it is important to note many of these operations participate in the power transmission side of the industry as well, it is rather limited as a result of Canada's Provincial Governments' providing most power transmission services in the country.

In the United States and Caribbean, Fortis' power and gas operations are carried out through their subsidiaries UNS Energy in Arizona, Central Hudson in New York, along with Caribbean Utilities, FortisCI, and Fortis Generation in the Caribbean.

Management & Governance





Impressive ESG Profile

In recent years Fortis has been striving to become a national leader in not just environmental issues but also in social and governance issues as well. In recent years Fortis has moved towards having almost half of their board of directors being women in order to try and garner a more diverse set of ideas. At the same time Fortis has been moving away from older energy production measures like coal and towards greener ones like solar, hydro, and wind. This combination of social and environmental responsibility lead to Fortis being named in the top 50 best Corporate Citizens, ranking in at #24 in 2019. Thus showing they aren't just your typical utilities company.

Strong Dividend Policy

Much like other Utilities companies, Fortis has a very strong dividend policy. What makes Fortis' dividends interesting is their consistent growth, Fortis has had its dividend increase now for 46 consecutive years, which brings them back to the year of the companies inception. On top of this consistent dividend policy, Fortis has pledged to increase the original timeframe for there 6% annual dividend increase, expanding it into the year 2024.

Experienced Management Team

When looking at Fortis' C-Suite executives we are able to see a group of individuals are both well versed in the utilities industry and with Fortis itself. Fortis' current

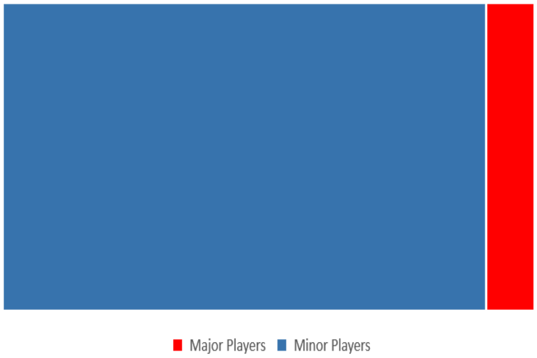
CEO Barry Perry has been with the company for almost 20 years, previously serving as Vice president of Finance and as the CFO and currently serves on the board of several Fortis utilities.

The current CFO of Fortis is Jocelyn Perry, Ms. Perry has had an extensive career in utilities having worked at Newfoundland power for over 13 years holding an impressive list of positions including; CFO, COO, and CEO. Furthermore, she was previously a director of Finance at Fortis dating back to the early 2000's. It is important to note there is no relation between Jocelyn and Barry.

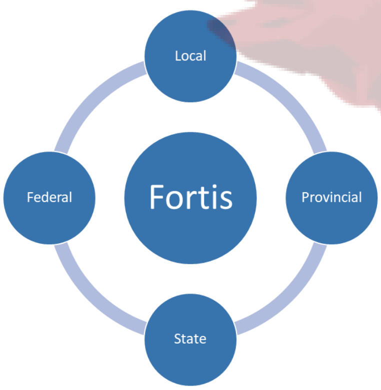
Lastly the current COO of Fortis is David Hutchins, Mr. Hutchins has 24 years of experience in the energy sector. He previously served as the CEO of UNS energy (now a part of Fortis). Before he assumed his current role he was the executive Vice president of Western Utility Operations for Fortis.

Industry Overview

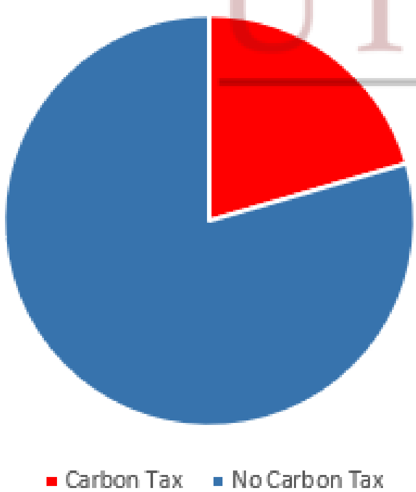
Utilities Industry Breakdown



Levels of Government



Countries with Carbon Taxes



As previously mentioned Fortis operates in both the power generation and transmission side of the utilities industry. These two sub-sectors may often have different participants in each, they are quite similar in their current structures and key success factors.

Competitive Land Scape

In both the transmission and generation sub-sectors market share concentration is extremely low, with major players making up less than 10% of each. This is because most companies are considered major players for the region they operate in and do not have large geographically diverse operations. Considering acquisitions in this industry generally only occur to cut costs we can expect this low market share concentration to continue in the future.

Factors for Success

Some major factors for success in the utilities industry include; the ability to pass on cost increases, ensuring that pricing policy is appropriate, being able to negotiate with regulatory bodies, and moving towards smart grids along with other green technologies.

In virtually all regions Fortis operates in electricity distribution and generation is heavily regulated by one of, provincial, state, or regional governments, leading to market prices and increased regulatory costs to be up to the regulators they are dealing with, thus being able to pass on these increased costs to consumers is a necessity for any business trying to be successful n the utilities industry.

As previously stated most North American utilities companies are heavily regulated by the government, making being able to negotiate with a multitude of regulators to be extremely important as they do not just negotiate prices they are allowed to charge, safety regulations and operational practices are also subject to strict regulations as well. Thus governmental bodies do not only have direct control over how much revenue a company can take in, but they also have a very heavy influence on their cost structure as well.

Lastly, the demand for environmentally friendly energy is at an all time high and with governments around the world pushing power generators away from fossil fuels like coal and towards greener sources like hydro, wind, and solar has been causing increased costs for power generation companies. Some measures being put in place to help regulate these new demands include both carbon taxes and subsidies for green power generation from provincial, state, and regional governments.

Competitive Positioning

Competitors

Emera—TSE: EMA

Emera is a utilities company based in Halifax, Nova Scotia that began trading on Toronto Stock Exchange in 1999. Much like Fortis Emera is a Maritimes based utilities company with operations in the United States, and the Caribbean. However, none of there American. In 2018 Emera reported revenues over $6.5 billion.

Algonquin Power—TSE: AQN

Algonquin Power is primarily a power generation company based out of Oakville, Ontario. Much like Fortis and Emera Algonquin also operates in the United States through its subsidiaries Liberty Utilities and Liberty Power, through these two companies Algonquin operates in 12 states to go along with its Canadian operations primarily located in Ontario and Quebec. In 2018 Algonquin had revenues just over $2 billion.

Hydro One—TSE: H

Hydro One is a Toronto, Ontario based power generation company. Originally a crown corporation, it first became public ally traded in 2015 through the sale of shares via the Ontario Government. Hydro One had just under $6 billion of revenue in 2018.

Fortis' Competitive Positioning

Transitioning to Transmission

With its acquisition of ITC in 2016, Fortis has become a company with both the ability to produce and transmit power in North America. A new form of vertical integration currently uncommon in the Utilities industry.

Investments in Smart Grids and Green Power Generation

Even though Fortis is transitioning towards power transmission more and more every year, it does not mean they are not committed to decreasing their carbon footprint. Fortis managed to decrease its green house gas emissions by 6% in 2017, despite already having little carbon based power generation sources.

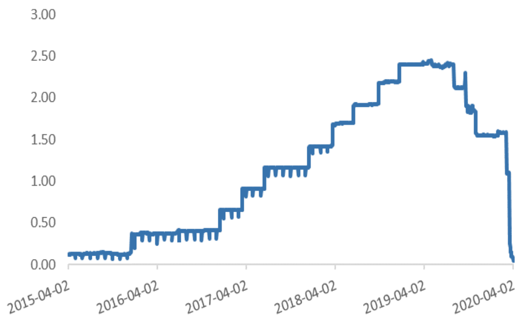
Negotiation with Regulators

Fortis is well positioned to negotiate with regulators in all regions it is presence in. They do this through construction of local boards for different regulatory regions that are primarily made up of local board members.

Investment Summary

We are issuing a buy recommendation for Fortis Inc with an estimated fair value of Fortis being $62 valuing it as a bond like entity. Thus presenting what is an effectively 20.34% discount on the stock price. Our recommendation is primarily based on the idea of Fortis being used as a Bond Proxy during the current low interest rate environment. We also believe that as a result of recent declines in market prices caused by unforeseeable macroeconomic factors, have negatively affected the share price of Fortis providing an even more valuable purchase when treating Fortis as a bond like asset.

Federal Funds Rate



Current Interest Rate Environment lowering Bond Yields

With current economic concerns we see North American target interest rates near zero, causing bond yields to drop dramatically. For example we saw the yield on 10 year American T-Bonds at 0.62% as of April 1st.

Fortis Credit Ratings

S&P Global	A-
DBRS MORNINGSTAR	BBB High
MOODY'S	Baa3

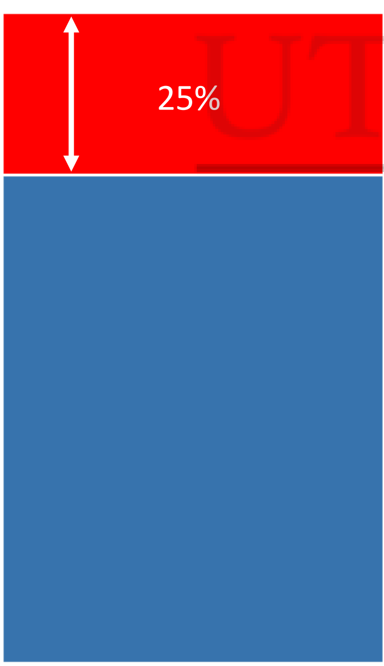
Bond-Like Qualities of Fortis

Fortis as a company has a trio of qualities that we believe make it a suitable proxy to bonds with a higher yield. Said qualities being; Low Stock Price Volatility, Excellent Credit Ratings, and a Minimal Market Beta. Over the past 3 Years Fortis has managed to achieve a stock price standard deviation of 0.013, a Beta of ~0.29, and Investment Grade Credit Ratings. Furthermore, the Maximum one day VaR for the past 3 years is ~-4.362%, with ~86% of all trading days in the past 3 years having a daily change in price less than 1%.

Strong and Stable Dividend Growth

As previously stated ,Fortis has had 46 consecutive years of dividend growth, a very important number as that is how many years Fortis has been an independent company With such consistent dividend growth throughout its history no matter what other macroeconomic factors were present, we believe that despite current economic downturn Fortis will continue their projected 6% annual dividend increase through 2024.

Lost Revenue in Telecom

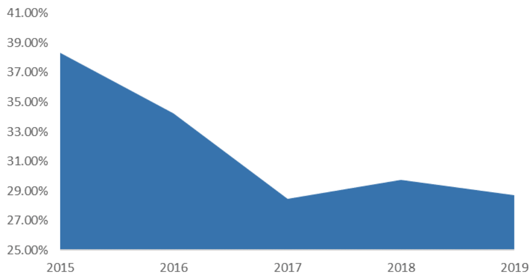


Other Bond-Like Industries Being Adversely Affected by External Factors

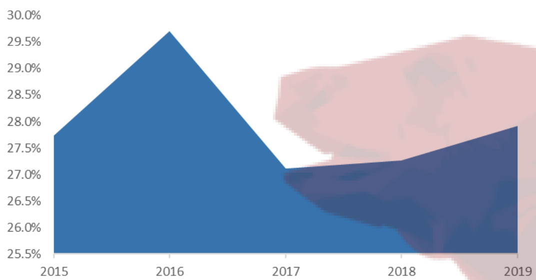
When looking at other bond-like industries that could act as substitutes we considered Canadian telecommunication companies and North American REITs, both for their stable stock prices, high dividends and low Betas. However both these industries are currently facing external issues. Canadian Telecoms have recently been told they must cut their rates by at least 25% over the next two years or face consequences from the Canadian Government. Furthermore, REITs could end up having serious liquidity issues as a result of recent market decline, some are even facing potentially devastating margin calls.

Financial Analysis

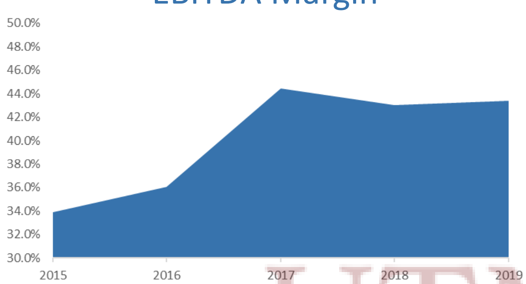
Energy Supply Cost Margin



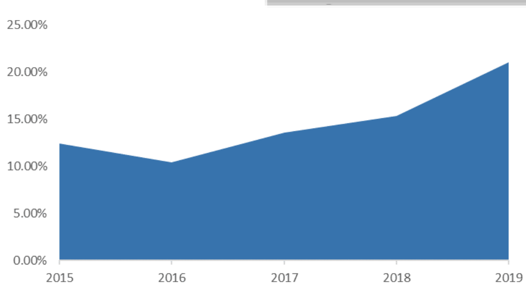
Operating Cost Margin



EBITDA Margin



Net Income Margin



Energy Supply Costs

When looking at utilities companies COGS is not something you will likely see on an income statement. However, you will see energy supply costs in its palace and when looking at Fortis' energy cost margin we can see significant improvement over the past 5 years. From 40% in 2014 down to 29.7% in 2018 and we expect this trend to continue. This increased efficiency can likely be attributed to the shift in Fortis' business model towards power transmission with the acquisition of ITC in 2016.

Operating Costs Margin

Despite the significant changes to the structure of Fortis and its business model, the company has managed to keep its operating costs margin between 27% and 30% since 2014, long before the ITC acquisition.

Revenue and EBITDA Growth

Excluding the year after the ITC acquisition (2017) where revenue growth was 21.4%, Fortis has had fairly stable and low growth over the past 5 years, with revenue growths between 1% and 5% every year. We are forecasting a revenue increase of 3.5% in 2020, with a decline in revenue growth each year until 2023 at which point we forecast Fortis to grow with inflation. Much like its revenue Fortis' EBITDA has been growing slowly. However, it is important to note that after the ITC acquisition Fortis' EBITDA margin increased from ~35% to about ~43%.

Capital Expenditure Plan

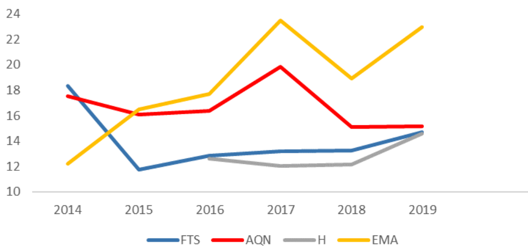
In 2017 Fortis' management introduced a $14.5 billion capital expenditure plan in order to invest in new infrastructure. A recent development in said plan was $300 million dollars into the Oso Grande Wind Project in January 2020.

Other Financial Ratios

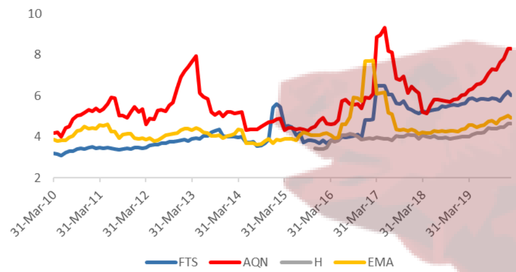
Over the past 5 years Fortis has maintained an interest coverage ratio between 2.3 and 2.7. Amongst its competitors only Hydro one offers a more stable range of values. Furthermore, a rather uninteresting trend with Fortis is its consistency outside of the years affected by the ITC acquisition. This is further displayed in both its ROE and ROA values. Since the acquisition of ITC, Fortis' ROA has been between 2% and 2.25%, along with an ROE between 6% and 6.5%.

Valuations

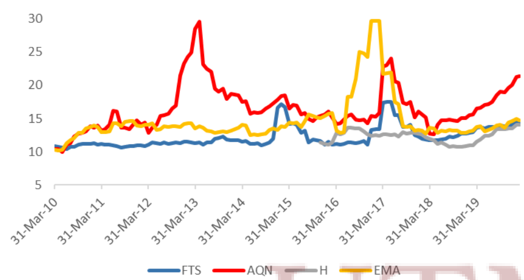
EV/DACF



EV/Revenue



EV/EBITDA



Companies	Exchange	Ticker
Fortis	TSE	FTS
Emera	TSE	EMA
Hydro One	TSE	H
Algonquin	TSE	AQN

When creating our valuation methodology for Fortis we had to consider techniques not commonly used and discount ones that you will see in most equity reports. We used three methods for our valuations, A comparable company analysis, a Dividend Discount Model (DDM), and a variation of the DDM, rooted in Modigliani and Miller's theory of homemade dividends.

Comparable Companies Analysis

We selected 3 companies to be used in our comps analysis. Those being Hydro One (TSE:H), Algonquin Power (TSE:AQN), and Emera (TSE:EMA). Finding direct comparable companies for Fortis was tricky as it is primarily a power transmission company that also generates power. Most companies usually occupy one sphere or the other and if there is overlap the company is primarily power generation not transmission. This lead us to try and find companies that would act as indirect comps. Our first choice was an easy one, Emera is utilities company based out of the Canadian Maritimes that has significant operations in the states and is fairly close in size to Fortis. The next company used was Algonquin, a utilities company based out of Ontario also with major operations in the USA. Lastly, we used Hydro One, A Toronto based Utilities company similar in size to Fortis. Unfortunately all these companies lack significant power transmission components. However we deemed this to be acceptable as they are all regulated in a similar fashion and have other significant similarities to Fortis.

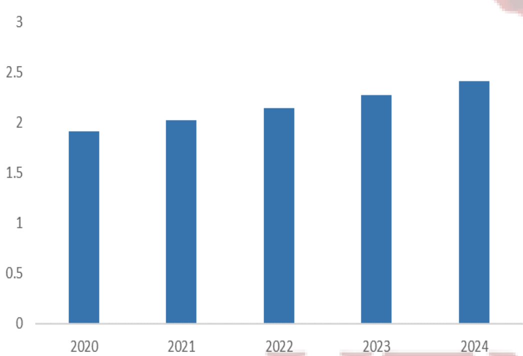
Our actual comparable evaluation was based on finding the historical spread between Fortis and our comparable companies on 3 trading multiples since 2016. The year 2016 is significant for our valuation methodology for two reasons, it was the year Fortis acquired ITC and it was also Hydro One's first full trading year. The multiples we used EV/Revenue, EV/EBITDA, and EV/DACF (debt adjusted cash flows). The only Multiple in here that is uncommonly seen is EV/DACF. DACF accounts for the after tax debt expenditures a value extremely important as utility companies often finance 40%-60% of their operations through debt. After calculating the appropriate spreads we our trading multiples yielded 3 different estimated share prices of $70.41 (EV/EBITDA), $64.53 (EV/Revenue), and $56.11 (EV/DACF).

When Calculating our final share price, we assigned weights of our final share price to each multiple individually. Said weights being, 10% for EV/EBITDA, 10% for EV/Revenue, and 20% for EV/DACF. EV/DACF received the highest weighting as we consider it to be the most important multiple for the utilities industry.

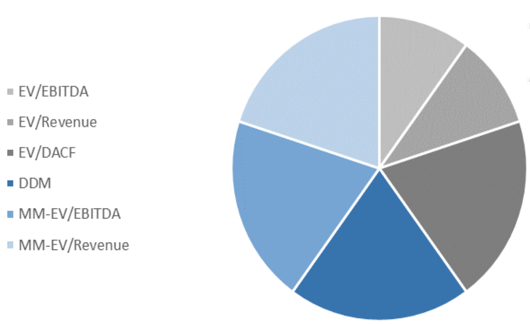
Valuations

WACC Calculation	
Risk Free Rate	0.75%
Market Risk Premium	5.5%
Market Beta	0.29
CDN Equity Premium	3%
Cost of Equity	5.357%
Cost of Debt	3.40%
Tax Rate	0.28
After Tax Cost of Debt	2.45%
Debt to Total Cap	0.58
WACC	3.670%

Forecasted Dividends



Weights of Valuation Methods



Dividend Discount Model

Since we were valuing Fortis as if it were a bond we could not possibly ignore its dividend payments as they are our proxy for coupons. We have confidence in Fortis meeting their dividend targets over the next five years, having us assume annual dividend growth of 6% for our explicit horizon. Following our explicit horizon we are assuming Fortis' dividend payments will grow with inflation at 2%. With these assumptions in mind we discounted all of Fortis' future dividend payments using a WACC of 3.67%. Thus yielding a share price of $64.19, we assigned a weight of 20% for our final share price to this methodology

M&M's Homemade Dividends

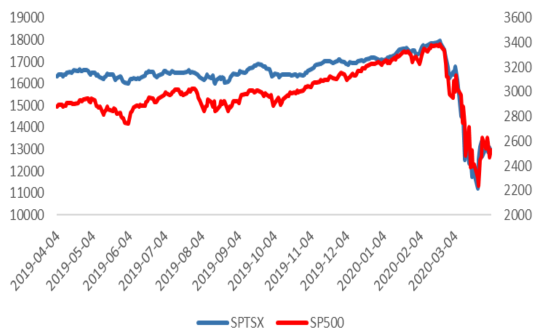
The primary flaw in M&M's homemade dividends is that in reality capital gains and dividends are taxed at different rates. However, if you look at how the highest bracket is taxed on both of these in Ontario at our current point in time they are within a few percentage points of each other. This is what allowed us to use the following methodology, in which we assumed an investor would purchase Fortis today in its current discounted state, hold it for the explicit horizon in order to gain value from its current dividend growth being significantly higher than its WACC. After the Explicit horizon would end we assumed the investor would then sell their shares in Fortis creating their own cash flow. Furthermore, outside of M&M's theories this final large lump some payment would also act in a manor similar to that of the face value of a bond, something we are trying to create a proxy for. For our exit multiples we used two standard ratios in order to try and forecast the EV at our time of exit. These multiples were EV/EBITDA and EV/Revenue. It is important to note the values differ from that in our comps as that was based of spreads at what we should be trading at today. For our exit multiples we took an average of the above two ratios since the integration of ITC was mostly complete in 2017. The two current day share prices estimated were $64.29 from EV/EBITDA weighted at 20% and $58.46 from EV/Revenue with a weight of 20%.

Final Valuation

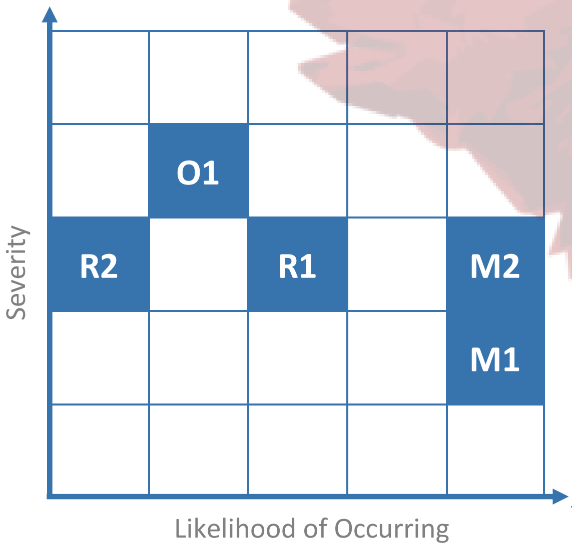
After taking the weighted sum of all our weighted estimates we have an estimated fair value of Fortis of $62. This represents a 20.34% discount if we were to view Fortis as a bond or a bond like entity.

Risks and Mitigations

SPTSX & SP500



Risk Matrix



Operational Risk

O1: Environmental Damage, Environmental disasters will always pose a serious threat to any companies that have large amount of infrastructure especially when some of it is fairly fragile like power lines.

Mitigation: Temporary decline in cashflows from natural disasters is mitigated very well through Fortis' geographically diverse operations.

Regulatory Risk

R1: Rates set by Government are Unfavourable, Almost all of Fortis revenue is heavily regulated by regional governments and if they could set electricity rates that would be unfavourable for Fortis.

Mitigation: Fortis has strong regional boards that have been designed to negotiate with each regions regulator to try and prevent lower rates.

R2: Green Energy Requirements become too Demanding, With climate change becoming a more serious issue every year, regulations regarding green house gasses are becoming more prominent. This will likely cause increased energy supply costs in the future.

Mitigation: Since its acquisition of ITC Fortis has naturally been moving away from power generation and more towards transmission. Furthermore, a significant portion of Fortis' $14.5 billion CapEx plan has been for the development of greener power generation infrastructure.

Macro-Economic Risk

M1: Prolonged Economic Downturn, The current economic environment will likely hurt most companies revenues, even those that are non-cyclical like utilities. The current downturn is not based is based on people being unable to go out and even having a significant portion of industrial industries being shut down lowering power usage.

Mitigation: Fortunately many of the industrial factories that would use a lot of power that were deemed non-essential have transitioned into developing medical equipment. Furthermore, people staying home are still using more power in their personal life as they are at home more.

M2: Future Interest Rates Rising, Fortis has significant levels of debt now and this will continue into the future. If interest rates were to rise by a significant amount it could increase Fortis' expenses in the future.

Mitigation: Fortis is considered an investment grade company and will always receive highly competitive rates from financial institutions. Thus it will always be competitive within its own sector as the entire industry is very debt heavy.

Appendix

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Management

Appendix A Historical Income Statement

Income Satement	2015	2016	2017	2018	2019
Revenue	$ 6,757.00	$ 6,838.00	$ 8,301.00	$ 8,390.00	$ 8,783.00
Energy Supply Costs	-$ 2,591.00	-$ 2,341.00	-$ 2,361.00	-$ 2,495.00	-$ 2,520.00
Operating Expense	-$ 1,874.00	-$ 2,031.00	-$ 2,250.00	-$ 2,287.00	-$ 2,452.00
EBITDA	$ 2,292.00	$ 2,466.00	$ 3,690.00	$ 3,608.00	$ 3,811.00
Depreciation and Amortization	-$ 873.00	-$ 983.00	-$ 1,179.00	-$ 1,243.00	-$ 1,350.00
Gain on Disposition	$ -	$ -	$ -	$ -	$ 577.00
EBIT	$ 1,419.00	$ 1,483.00	$ 2,511.00	$ 2,365.00	$ 3,038.00
Other income / expenses, net	$ 197.00	$ 53.00	$ 116.00	$ 60.00	$ 138.00
Finance charges	-$ 553.00	-$ 678.00	-$ 914.00	-$ 974.00	-$ 1,035.00
EBT	$ 1,063.00	$ 858.00	$ 1,713.00	$ 1,451.00	$ 2,141.00
Income tax expense / recovery	-$ 223.00	-$ 145.00	-$ 588.00	-$ 165.00	-$ 289.00
Net Income	$ 840.00	$ 713.00	$ 1,125.00	$ 1,286.00	$ 1,852.00

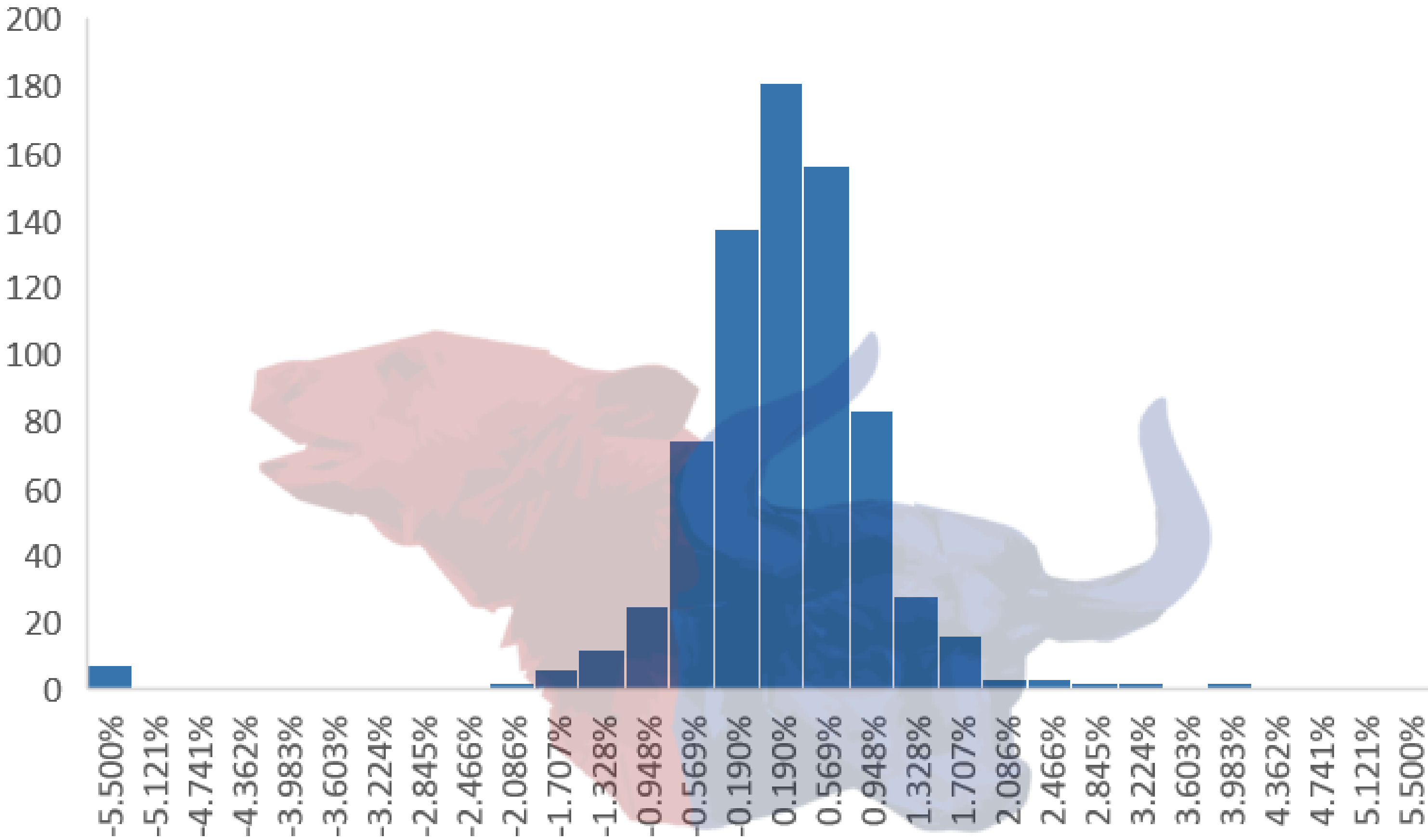
Appendix B Forecasted Income Statement

Income Satement					
	2020	2021	2022	2023	2024
Revenue	$ 9,090.41	$ 9,363.12	$ 9,597.20	$ 9,789.14	$ 9,984.92
Energy Supply Costs	-$ 2,590.77	-$ 2,668.49	-$ 2,735.20	-$ 2,789.90	-$ 2,845.70
Operating Expense	-$ 2,545.31	-$ 2,621.67	-$ 2,687.21	-$ 2,740.96	-$ 2,795.78
EBITDA	$ 3,954.33	$ 4,072.96	$ 4,174.78	$ 4,258.28	$ 4,343.44
Depreciation and Amortization	-$ 1,436.28	-$ 1,507.46	-$ 1,573.94	-$ 1,605.42	-$ 1,637.53
Gain on Disposition	$ -	$ -	$ -	$ -	$ -
EBIT	$ 2,518.04	$ 2,565.49	$ 2,600.84	$ 2,652.86	$ 2,705.91
Other income / expenses, net	-$ 107.02	-$ 109.03	-$ 110.54	-$ 112.75	-$ 115.00
Finance charges	-$ 956.86	-$ 974.89	-$ 988.32	-$ 1,008.09	-$ 1,028.25
EBT	$ 1,454.17	$ 1,481.57	$ 1,501.99	$ 1,532.02	$ 1,562.67
Income tax expense / recovery	-$ 196.31	-$ 200.01	-$ 202.77	-$ 206.82	-$ 210.96
Net Income	$ 1,257.86	$ 1,281.56	$ 1,299.22	$ 1,325.20	$ 1,351.71

Assumptions for Income Statement Forecasts

ESC/Revenue	-28.50%	-28.50%	-28.50%	-28.50%	-28.50%
Operating Expenses / Revenue	-28.00%	-28.00%	-28.00%	-28.00%	-28.00%
D&A/Revenue	-15.80%	-16.10%	-16.40%	-16.40%	-16.40%
Gain on Disposition / Revenue	0%	0%	0%	0%	0%
Other income & Expenses/EBIT	-4.25%	-4.25%	-4.25%	-4.25%	-4.25%
Finance charges/EBIT	-38%	-38%	-38%	-38%	-38%
Income tax expense/ EBIT	-13.50%	-13.50%	-13.50%	-13.50%	-13.50%
Revenue Growth	3.50%	3.00%	2.50%	2%	2%

Appendix C VaR



Fortis' one Day VaR with a 99% confidence is ~-4.362%. It is also important to note that Most of Fortis' worst trading days have come with the recent market declines resulting from COVID-19 and without these days Fortis Stock Price Deviation and VaR would be significantly lower.

Appendix D Divdend Discount Model and M&M Valuation

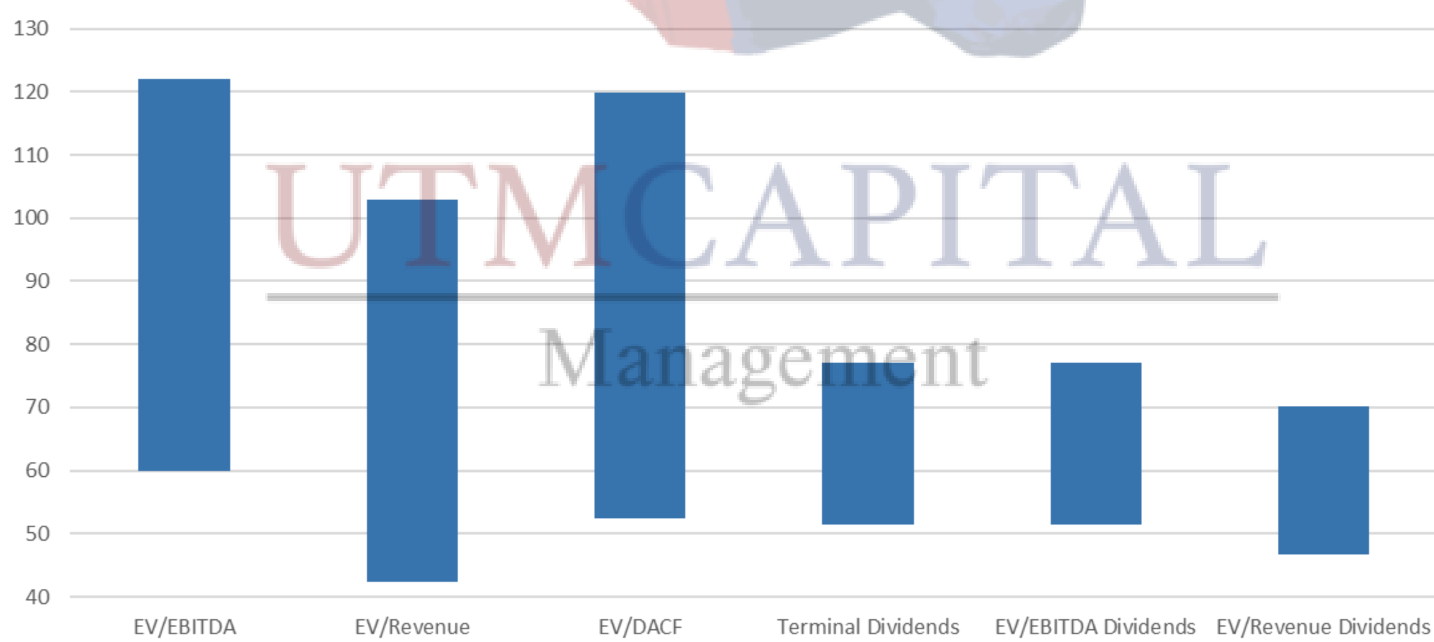
Dividend Discount Model

Year	2020			2021				2022				2023				2024				Terminal Annual Dividend
Quarter	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Dividend Value	0.4775	0.4775	0.4775	0.5062	0.5062	0.5062	0.5062	0.5365	0.5365	0.5365	0.5365	0.5687	0.5687	0.5687	0.5687	0.6028	0.6028	0.6028	0.6028	0.614889403
																				65.63531973
Discount Factor	0.25	0.5	0.75	1	1.25	1.5	1.75	2	2.25	2.5	2.75	3	3.25	3.5	3.75	4	4.25	4.5	4.75	5
PV of Dividends	0.473217094	0.468973	0.464766	0.488233	0.483854	0.479514	0.475213	0.499208	0.49473	0.490293	0.485895	0.510429	0.505851	0.501314	0.496817	0.521903	0.517222	0.512582	0.507985	54.81236855

	Terminal EV/EBITDA	Terminal EV/Sales
Multiple	13.2	5.4
Underlying Value	4343.440966	9984.922
Net Debt	26959.28875	26959.29
Market Cap	30482.23541	27243.3
Shares Outstanding	463.5	463.5
Estimated Share price in 5 years	65.7653407	58.77736
Discount Factor	5	5
PV of Terminal Values	54.92094968	49.08525

Terminal Growth	
Stock Price	64.19036883
M&M 5 Year	
EV/EBITDA Price	64.29894995
EV/Sales Price	58.46325024

Appendix E Foot-Ball Field



Appendix F SWOT Analysis

Strengths

Diversified utilities business: With significant operations on both the generation and transmission side of utilities, operating through a large group of subsidiaries, Fortis is able to sustain a high degree of stability.

Revenue and Dividend Growth: Fortis has grown revenue slowly and steadily over the past 5 years, with rates ranging from 1% -5%. In tandem with a 46 year history of annually increasing dividends, Fortis runs a quality business that stands above its peers in a deeply regulated and highly mature industry.

Geographical Segmentation: Via its main company, and 10 subsidiaries, Fortis is able to do business in a variety of regions and countries which is uncharacteristic of the highly regional utilities business.

Weaknesses

High Capital requirements for infrastructure: Despite Fortis' investment grade rating and access to cheap funds, its debt heavy capital structure reflects the high cost of infrastructure in the capital intensive utilities business.

Low prices of LNG: FortisBC provides LNG to Lower Mainland BC during peak demand, BCFerries, and other heavily industrial clients. While not a major revenue driver, a low price of LNG lowers revenues significantly for this important subsidiary.

Revenues are subject to seasonality: The utilities Sector faces a peak demand season between late March and early October, when demand for electricity is high in the summer months.

Opportunities

Increasing Demand for Natural Gas: The demand for cleaner electricity in the form of gas generation has power generators shutting down coal plants and developing more infrastructure for gas.

Low Interest Rate Environment: The current interest rate allows Fortis to engage in infrastructure expansion projects at a lower cost of debt.

Rising Demand for Green Energy: Increasing EV sales globally hold very long-term implications for the development of national charging networks.

Threats

Regulatory risks: The nature of the utilities industry results in a high degree of revenue regulation for generation and transmission businesses. Fortis must allocated significant resources to negotiate with governing bodies.

Climate Change Increasing Occurrence of Natural Disasters: In the world today are constantly changing climate has led to an increase in both the frequency and severity of natural disasters. With said severe weather potentially causing damage to Fortis' infrastructure needs to be considered.

Appendix G Porters 5 Forces

Threat of New Entrants - Low:

The Utilities Industry is both heavily regulated by the all levels of government and is also very capital intensive due to expensive infrastructure requirements. When combining these two factors it makes it very difficult for new companies to enter into the market.

Threat of Product Substitutes - Low:

For the utilities industry as a whole, a substitute for the product they deliver does not really exist today. These companies provide electricity to consumers. Now individual companies and households may to choose to move towards generating their own power on property they own. However, very few individuals are able to do that at this point in time making it an uncommon occurrence. Furthermore, the biggest part of Fortis' business model is its power transmission side, something we do not have a substitute for, power needs to be transmitted either above or under ground via some form of power line. An argument could be made that different types of power generation could act as substitutes, however we did not consider this as we were looking at the product sold not how it was produced.

Rivalry Amongst Competitors - Low:

Given the nature of how contracts and rates are negotiated between power generators and the government, the rivalry between companies is fairly low as many of these contracts are long term and will provide stable revenue for the foreseeable future. When looking at the power transmission side, rivalry is also very low as the amount of available power transmitters is low.

Power of Buyers- Low:

In most regions Fortis operates in their only buyer is the government and in most cases this would lead to a higher buyers power. However, in the utilities industry that is not really the case as the government has a limited supply of power generators and transmitters they can purchase from due to the nature of the industry.

Power of Suppliers - Low:

When looking at power of suppliers for Fortis we are primarily focusing on its power transmission side of its business, as there is a very limited amount of available transmitters. This is largely because these power transmission companies often operate regionally much like the generators who need to purchase their services.

Appendix H Management Team

Name & Title	Years of Experience	Description
Barry V. Perry – President and CEO 	Mr. Perry has spent 20 years with Fortis	Having previously served as Vice President of Finance and eventually CFO, Mr. Perry worked in the global forest products and oil refinement business beforehand. He joined the Fortis group in 2000, and Mr. Perry sits on the boards of FortisBC, UNS Energy and ITC Holdings Corp., all Fortis utilities.
Jocelyn H. Perry 	Ms. Perry spent 13 years with Newfoundland Power in various capacities including CFO, COO, and CEO.	In addition to spending time as a Director of Finance at Fortis in the early 2000's, Ms. Perry currently serves on the Boards of Central Hudson and FortisBC, both Fortis utilities.
David G. Hutchens – COO 	With a career in the energy sector spanning more than 24 years, Mr. Hutchens in comfortable in a variety of positions within the gas and electric industry.	Mr. Hutchens has an educational background in aerospace engineering and spent time as nuclear submarine officer in the Navy. He currently serves on the Boards of UNS Energy, FortisBC and FortisAlberta, all Fortis utilities.

Appendix I Management Team Pt 2

Nora M. Duke – Chief Human Resource Officer 	Ms. Duke's tenure with the Fortis group spans 30 years.	Ms. Duke has served previously as the President and CEO of Fortis Properties. Additionally, as Vice President of Hospitality Services of Fortis Properties; and Vice President of Customer and Corporate Services of Newfoundland Power. Today, she sits on the Board of UNS Energy and FortisAlberta, both Fortis utilities.
James P. Laurito – Chief Technology Officer 	Mr. Laurito has spent 10 years within the Fortis family.	In 2010, Mr. Laurito was appointed the President and CEO of Central Hudson Gas & Electric Corporation, Fortis' first US subsidiary. He has a long history of success, working in the industry as President and CEO of New York State Electric and Gas Corporation. He holds an educational background in civil engineering, finance, and manufacturing management.
James R. Reid – Chief Legal Officer 	Mr. Reid has practiced as a partner with Davies Ward Phillips & Vineberg LLP in Toronto for 20 years. In that time, he has maintained a 15-year advisory relationship with Fortis.	Mr. Reid has advised Fortis on corporate governance matters, large capital market transactions, regulatory applications and mergers and acquisitions in both Canada and the United States. He has been an adjunct professor at Osgoode Hall Law School in Toronto for the past 10 years and serves on the board of UNS Energy and Fortis Ontario.