NextEra Energy, Inc.

Not Your Father's Electric City

- NextEra Energy, Inc. (NEE) is the poster child for stocks that you want to buy after a market correction. The company dominates the most desirable subsector in energy & utilities: renewables. Over the past five years, there has seldom been the chance to build a position in NEE when it was trading at a discount to itself, and our team feels lucky to have the opportunity. During the initial COVID-19 sell-off, NEE's valuation fell 35% from its highs of 31x NTM PE, before slightly rebounding to 24x. While NEE is not significantly discounted to its one-year average (7.2%), we view any chance to buy NEE at a discount to itself as an opportunity that we do not want to miss.
- Over the past 30 years, and more aggressively the past 10, NEE has built the country's leading renewable energy operation, with expertise in solar, wind, and nuclear power generation and battery storage. Its hard work and foresight primed NEE to capture the rapid growth of renewable energy demand and lead the country to a greener future.
- While NEE's renewables business is sexier, its regulated electric utility business in FL is just as attractive to an intelligent investor. With an industry-leading ROE, the largest customer base in the US, and the cheapest electricity rates in FL ($41 below the national average), NEE also offers one of the most desirable utility companies in the US. Over the next one to three years, NEE's regulated utility business will drive earnings growth through a combined rate case filed by two previously separate subsidiaries, significant operational efficiency growth, and two potential acquisitions.
- Through our Sum-of-the-Parts analysis, we see shares reaching a price of $267, representing a 16% return.

Symbol	NYSE: NEE
52-Week Range	174.80 – 283.34
YTD Performance	(7.1%)
Market Cap (M)	$110,249
Enterprise Value (M)	$149,567
Net Debt (M)	$42,430
Dividend Yield	2.5%
NTM P/E	24.4x
NTM EV/EBITDA	14.3x
ROE	15.5%
ROA	4.5%

FY (Jan)	2019A	2020E	2021E
EPS			
Q1	1.41	1.62	1.88
YoY Change		*14.8%*	*15.8%*
Q2	2.56	1.92	2.18
YoY Change		*(24.9%)*	*13.4%*
Q3	1.81	2.40	2.48
YoY Change		*32.9%*	*3.1%*
Q4	1.99	2.24	2.07
YoY Change		*11.6%*	*(7.9%)*
Year	7.77	8.19	8.60

COMPANY OVERVIEW

NextEra Energy, Inc. (NYSE: NEE) is one of the largest energy power infrastructure and distribution companies in North America and a leading provider of renewable energy. The company was founded in 1984 and is headquartered in Juno Beach, Florida. NEE consists of three business segments: FPL (63% of FY'19 Revenue), NEER (29%), and Gulf Power (8%). NEE currently derives all of its regulated electric utility revenue from Florida, although it's trying to inorganically move into the South Carolina and Kentucky markets. Its renewables segment operates entirely in the US & Canada. The company expects to report 1Q'20 earnings on April 28, 2020.

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Source: Bloomberg, FactSet, CapIQ. The William C. Dunkelberg Owl Fund does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the Fund may have a conflict of interest that could affect the objectivity of this report. All prices are current as of the end of previous trading session from date on which report was issued.

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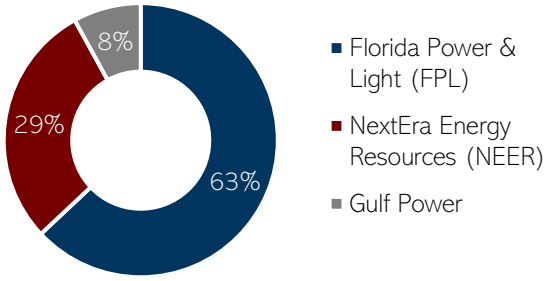
BUSINESS OVERVIEW

NEE operates solely in the US through various business lines and subsidiaries. FPL, the company's largest segment, distributes regulated energy throughout the state of Florida. Through its NEER segment, the company operates the largest renewable power generation business in the world by Megawatt hour (MWh), mainly through solar and wind energy. The company also expanded its regulated electrical utility operations throughout northwest Florida through its acquisition of Gulf Power in January 2019.

Segment Breakdown



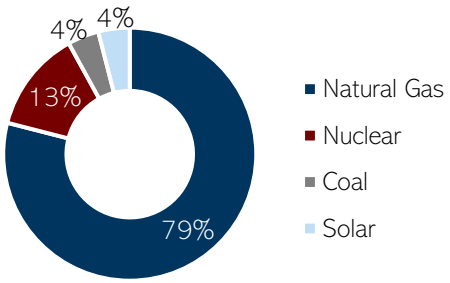
Florida Power & Light (63% of FY'19 Revenue)

FPL is a rate-regulated utility primarily operating in the generation, transmission, distribution and sale of electricity throughout Florida. The company is subject to both rate and environmental regulations. FPL's average monthly bill per residential customer for FY'19 was ~$100 per MWh, while the Florida average was $115, and the national average was $141. The segment provides ~27,500 MW of net generating capacity with 75,400 miles of distribution lines. Sources of electricity in this segment consist of natural gas (79% of net generating capacity), nuclear (13%), coal (4%), and solar (4%). Its five million customers benefit from its integrated transmission and distribution system that links FPL's facilities with its customers. FPL end-users include residential, commercial, and wholesale and industrial customers.

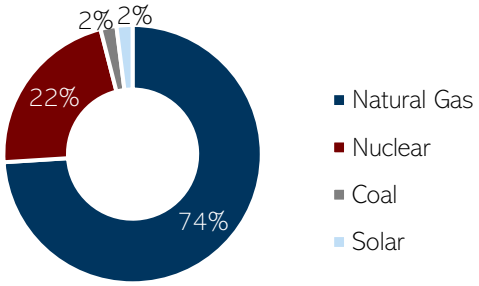
Type of Account	% of Customer Accounts	% of Operating Revenue
Residential	89%	55%
Commercial	11%	35%
Wholesale, Industrial & Other	< 1%	10%

- **Rate Regulation:** The rate regulations, determined by governing bodies, covers the cost of providing services to customers and a reasonable rate of return to the company; in this case, a range of 9.6% to 11.6% ROE. Every four years, utilities companies in the state of Florida must file for a new rate case with the Florida Public Service Commission (FPSC) and the Federal Energy Regulation Committee (FERC). FPL files its rate case in 1Q'21, which could help drive earnings growth if combined with Gulf Power.
- **Environmental Regulation:** FPL is also regulated by the US Environmental Protection Agency (EPA). The EPA ensures that pollution prevention programs and energy conservation efforts of FPL are satisfactory to government standards. FPL seeks to recover costs associated with any new environmental law or regulation through the environmental clause.

FPL Net Power Generation (MW*)



FPL Net Power Generation (MWh)**



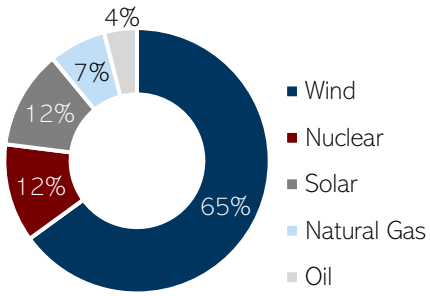
* MW is a unit measure of electrical capacity
** MWh is a measure of electrical efficiency (more efficient → more MWh per MW)

NextEra Energy Resources (29% of FY'19 Revenue)

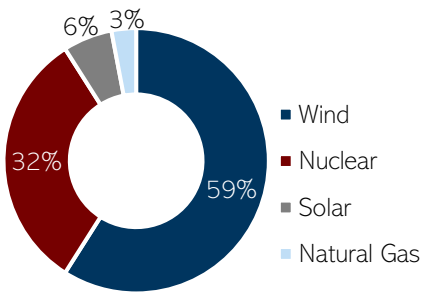
NEER offers a diversified clean energy business strategy focused on the development, construction and operation of long-term contracted assets. This segment provides 21,900 MW of generating capacity throughout 37 different states and four provinces in Canada. Additionally, this segment develops and creates battery storage centers to enhance the reliability and availability of its energy for its customers, primarily in Texas and California. NEER operates a portion of a subsidiary, NEP, which accumulated a portfolio of 36 wind and solar projects with generating capacity of 5,300 MW. Its operations include wind, solar, nuclear, and fossil fuel generation facilities.

- **Wind:** NEER operates wind facilities in 19 different states and 4 provinces in Canada with a total generating capacity of 16,000 MW and maintains ownership interest in another 14,000 MW of total generating capacity. In 2019, the company increased its new generating capacity by 1,125 MW and its repowered wind generating capacity by 1,100 MW. The assets are concentrated mostly throughout West Texas and Canada.
- **Solar:** The company's solar facilities are scattered throughout 29 states within the US. It operates facilities with a total generating capacity of 2,700 MW and has ownership interest in another 2,700 MW.
- **Nuclear:** NEER maintains interest in four nuclear power generating facilities in three states throughout the US, with ownership capacity totaling 2,700 MW. These facilities are periodically out-of-service for maintenance, refueling, and inspections. Currently, two of the facilities are out-of-service with another scheduled to pause service in October 2020.
- **Fossil Fuel:** The company manages natural gas facilities with a total generating capacity of 2,100 MW with an additional 1,600 MW in ownership interest located in the Northeast region and in Florida. Its oil generation facility generates a total capacity of 900 MW in Maine.
- As lawmakers in the US try to increase the production of renewable energy sources, they have created incentives for companies working in renewables, including accelerated tax depreciation, Production Tax Credits (PTCs), Input Tax Credits (ITCs), cash grants, tax abatements, and Renewable Portfolio Standard (RPS) programs. Wind and Solar assets are depreciated for tax purposes over a five-year period despite having a much longer useful life. PCTs are determined based on electricity produced by a wind facility in the first ten years of commercial operation.

NEER Net Power Generation (MW)



NEER Net Power Generation (MWh)*



*Oil less than 1%

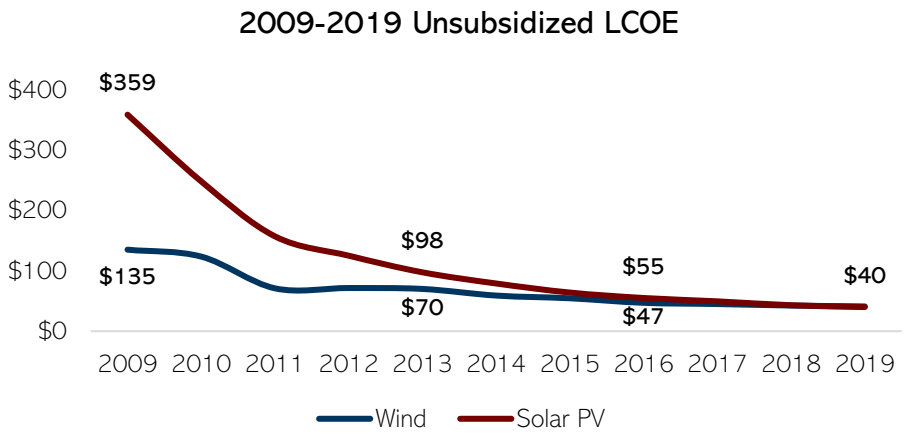
Gulf Power (8% of FY'19 Revenue)

Gulf Power was acquired by NEE in January of 2019 and provides a rate-regulated utility primarily operating in generation, transmission, distribution and sale of electricity throughout northwest Florida. The rate regulation allows for a range of 9.25% to 11.25% ROE. This segment provides ~2,300 MW of net generating capacity with 9,500 miles of distribution lines and serves 470,000 customers. Gulf Power faces similar regulation standards as FPL and will likely be merged with FPL in 1Q'21 for the company's rate filings.

INDUSTRY OVERVIEW

Renewables on the Rise

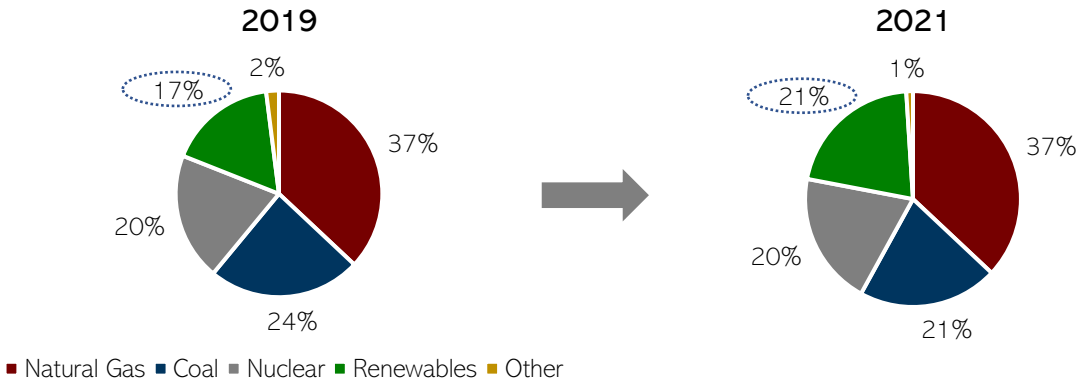
In recent years, renewable energy emerged as a reasonable alternative to more traditional fossil fuels. Over the last decade, the levelized **unsubsidized** cost of energy (LCOE) for both wind and solar has dropped significantly to ~$40/MWh. The marginal cost of conventional coal generation is ~$26-$41/MWh. **Under most circumstances, it is now cheaper to generate electricity using new wind or solar buildouts than to operate coal plants.**



The above costs do not consider any U.S. Federal Tax Subsidies. These investment and production tax credits play a key role in the implementation and growth of renewable energy. The Tax Credit program, implemented in 2015, was recently partially expanded through 2022.

Generation Technology	Avg Tax Credit / MWh
Solar PV - Rooftop Residential	$16.00
Solar PV - Rooftop C&I	$9.50
Solar PV - Community	$4.50
Solar PV - Crystalline Utility Scale	$2.00
Solar PV - Thin Film Utility Scale	$1.50
Solar Thermal Tower w/ Storage	$1.50
Geothermal	$8.00
Wind	$13.00

As a result of these changes, the US energy landscape is rapidly changing. Coal is rapidly declining as an energy source and many analysts are predicting that natural gas usage has plateaued or peaked. Renewable energy production grew consistently over the past 10 years, and the EIA expects generation to grow into 2022.



The growth in renewable energy demand is causing a growth in renewables infrastructure spending from both the public and private sectors. New investment in wind and solar capacity is expected to reach $1.92T by 2027, with Asia accounting for roughly half of this sector. Additionally, private infrastructure investors are raising capital to deploy in the sector. In February, Generate Capital raised over $1B for a renewable energy fund focused on renewables infrastructure.

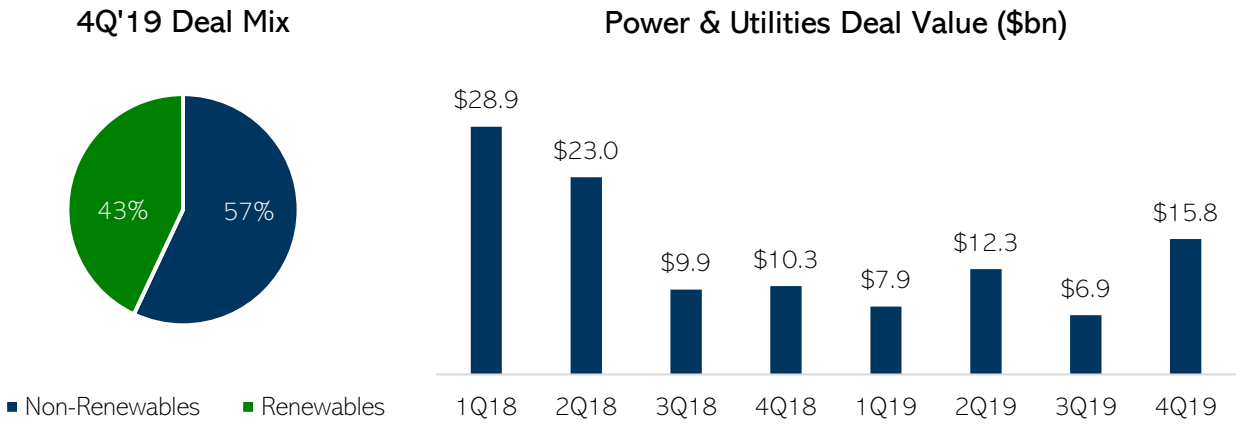
What's a rate base case again? Let's make it simple.

A public utility is required to take part in the ratemaking process. The purpose of this process is to ensure that rates are fair between customers. Because of this, **public utilities' revenue is capped by the rate set by a public utility commission.** The formula used to determine a rate base is:

*Revenue Requirement = Expenses + (Rate Base * Cost of Capital)*

The revenue requirement is what is needed to cover the costs and provide a fair return to investors. Expenses include operating and maintenance costs as well as depreciation, amortization, and tax expenses. For a company to raise its rate, it must put in a request for new rates and when those rates will take effect. It must also prove that these rate increases are needed or justified. Companies can also request a rate increase based on capital projects that increase reliability or sustainability, such as new transmission and distribution infrastructure.

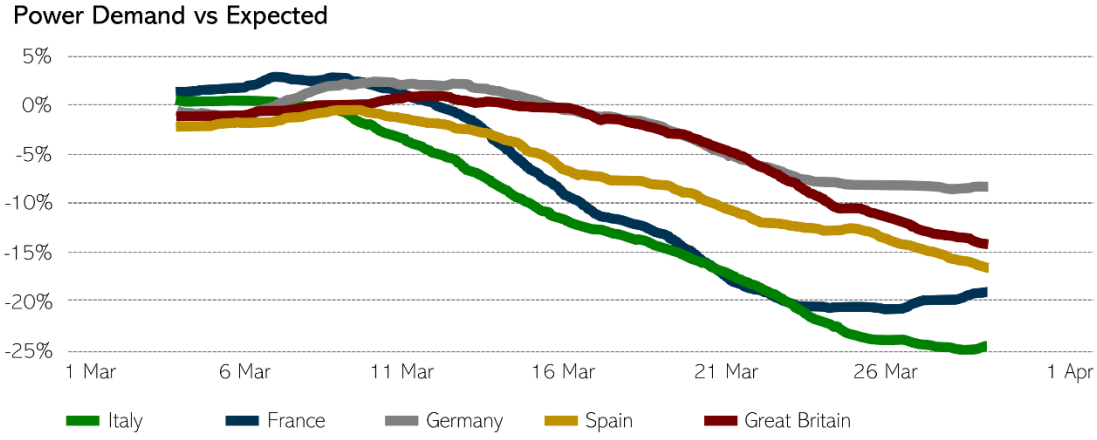
Deals in the Utilities Space



As shown above, deals in the power & utilities space have slowed since the beginning of 2018. As we move into 2020, however, we could see cheaper money and a thirst for efficiency drive activity in M&A. Larger customer bases allow utilities to distribute CapEx spending over a larger group of customers, potentially increasing their rate bases. This also makes them more diversified, and less susceptible to slowdowns or issues in one geographic region.

Flattening the Curve (For Electricity Demand)

The graph below shows the effect that COVID-19 has had on the European energy market. It is possible that the US could follow similar trend should more stringent lockdown procedures be enforced nationwide.



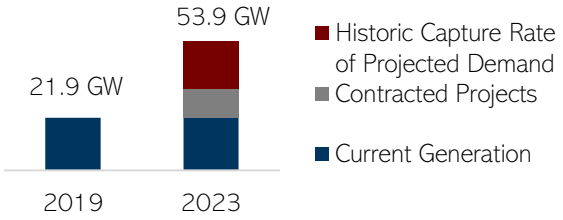
CATALYSTS & DRIVERS

Investing for Our Future

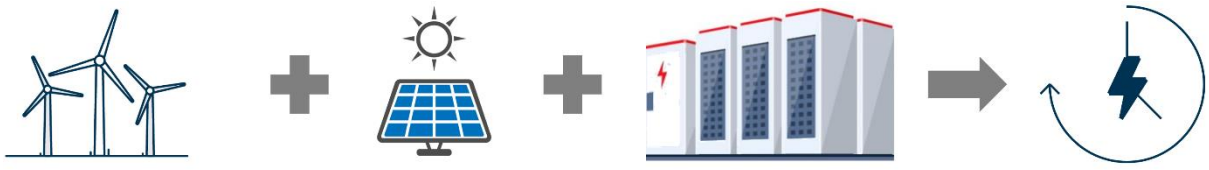
Throughout the past 10 years, only one trend has worked its way into every industry: disruption. Online shopping disrupted retailers, streaming services disrupted the entire media value chain, smart phones disrupt themselves every 2 years, lateral fracking disrupted the oil & gas industry, and artificial intelligence is disrupting everything from truck driving to high-frequency trading. While some disruptive trends turn industries upside down over night, some trends take longer. Renewable energy sources first became household names in the early 2000s, as DIY solar panels and wind farms started to pop up across the nation. That being said, it hasn't caused a rapid disruption of the energy market, evident by the continued global increase in crude production and demand (before January). We believe that renewables pose an exponential disruption risk to the energy markets. As renewable infrastructure and technology were built out and refined, renewable energy sources were expensive and illogical to use instead of fossil fuels. ***Now that the technology has significantly improved and substantial infrastructure exists, renewables will disrupt traditional fuel sources more and more each year.***

As illustrated in the industry overview, the past few years have been a monumental shifting point where wind and solar power made economic sense, not just environmental sense. NEE's renewable subsidiary, NEER, operates 21.9 Gigawatts (GW) of renewable energy production and has contracts to add 12 GW. Further, NEER CEO John Ketchum expects demand for renewable energy in the US to grow 80 GW by FY'22.

Renewables Generation Growth (25% CAGR)



With NEER's dominant market position (nearly 25% capture rate of renewables growth in the US), 80 GW of total demand growth would translate to ~20 GW of additional projects for NEER. NEER's scale and previous success are only two advantages that it will capitalize on to capture growing demand for renewables. NEER's most significant differentiator is its diverse portfolio of renewables offerings. While other renewable companies specialize in wind, solar, natural gas, or hydro power generation, or battery storage, ***NEER specializes in wind and solar power generation, as well as battery storage.*** With its diverse expertise, NEER introduced hybrid generation projects to the US, where the same facility utilizes solar panels and wind turbines to generate power, and high-capacity batteries to store that power. The combination of all three aspects in one facility reduces the variance of power generation ability and addresses the problem of non-peak generation. Since wind and solar generation in one area are negatively correlated, the two sources of energy support each other in nearly all-weather conditions. Additionally, the batteries act as a back-up if neither source is generating significant enough power to meet demand.



Fortunately, we don't have to hypothesize about whether or not these facilities will attract customers. NEER already signed two deals for these hybrid facilities, one of which will be a 700 MW facility in Oklahoma online by 2023, and the other will be a 380 MW facility in Oregon that will begin coming online throughout 2020. While the Oregon facility will be primarily wind-powered (~80%), which is more typical of NEER's portfolio, the Oklahoma facility will generate an even amount of wind and solar energy (250 MW each) and have 200 MW of battery storage. Phillip Schaeffer, who hired NextEra for the project, told GreenTechMedia that NEER's hybrid facility made more economic and operational sense than a natural gas peaker plant, what he traditionally would have turned towards to increase renewable capacity. While these two facilities are the first of their kind, our team believes that they are far from the last. Furthermore, NextEra is the largest renewables company with a diverse generation portfolio and is ***the only renewables company that is building large-scale wind-solar-battery hybrid facilities.***

One Flat Rate, Anywhere in the State

After getting a one-year extension on FPL's regulated rates, FPL will file a rate case with state and federal regulators come 1Q'21, in which we expect FPL to file collectively with Gulf Power. Management at NEE has not fully committed to filing the companies together but have said it is the "most probable" scenario after getting the one-year extension for FPL. We, like many others on The Street, believe the extension for FPL was to allow for the company to implement Gulf Power to then file a single rate case.

A Proven Track Record of Cost Savings

Throughout the first year of operating Gulf Power, NEE was able to **reduce Operational and Maintenance (O&M) costs by 20% YoY** at a cost of $25/MWh compared to $32/MWh a year prior. With the excess cash from these savings, the company reinvested $735mm into Gulf Power, **2.5x more than the average of Gulf Power's reinvestment over the last 5 years**. At a minimum, we expect NEE to continue driving operating costs lower, as the rate base increases at Gulf Power allows the company to expand CapEx substantially. Management outlined that, for every $1 of O&M savings, the company can spend $7 in CapEx with no impact to its customers' bills.

1Q'21 Filing & Beyond

Through filing FPL and Gulf Power together, we expect NEE to directly benefit through increased scale by gaining the ability to spread costs over a larger customer base, varying load demand based on time zone differences, and having more efficient electrical distribution. Furthermore, an increasing rate base for both FPL and Gulf Power will continue driving value through rate case filing.

- From April to December 2020, **FPL's residential customers' cost is ~$96/MWh while Gulf Power's customers cost is ~$140/MWh**. As the company files a joint rate case, FPL's low-cost power generation will be partially offset by Gulf Power's high-cost power generation, allowing the company to lock in a higher rate per MWh by spreading these costs to a larger customer base. We expect the combined power distribution to strengthen the company's economies of scale drive O&M expenses down $100mm and boost the reliability of its power distribution.
- Electric rates for consumers are highly variable and a function of supply and demand throughout a day. Electricity is created at the time of demand, rather than being stored after it is produced (renewable energy batteries store the energy needed to make electricity, not actual electricity). The price of energy to the consumers increases if they consume it during peak hours, when demand is high, rather than when demand is low. With FPL and Gulf Power coupled, NEE will see longer peaks in demand as customers' needs vary across different time zones.
- As the value of property in its domain increases in Florida, FPL and Gulf Power will see significant growth in its rate base. Through 2022, FPL and Gulf Power both expect to see an **increase in its rate base by 9% and 14%, respectively**. We expect the increasing rate base to bolster NEE's bottom-line.

All in all, we expect the joint filing to drive net income growth toward the upper end of management guidance of a 6-8% CAGR through 2022. Furthermore, we expect the company to drive meaningful cost savings to allow for a reduction in customers' bills by 9% through 2022.

Lobbying Concerns

Some investors fear intervenors lobbying against NEE due to its industry leading ROE. Despite investors' worries, management stated they are not worried about intervenors lobbying as **its customers pay the lowest rate in the state and 30% below national average**. Furthermore, NEE is in good standing with regulators because it is leading the push into renewables and should be allowed to maintain its industry leading ROE. As NEE's operations and electric distribution become less costly, we expect the company to benefit from regulators granting NEE approval on bids for other companies. These acquisitions will expand its operations into other geographic areas, such as South Carolina with its bid to acquire Santee Cooper.

On the Move

As NEE continues to prove its ability to reduce O&M costs and increase reliability of services, the company looks to acquire struggling companies like Gulf Power. The company's M&A strategy focuses on acquiring companies with little exposure to efficient clean energy sources and implement them for cost-efficiency.

Santee Cooper

Santee Cooper is a state-owned electric and water utility whose power generation serves more than 2mm people throughout all 46 counties in the state of South Carolina. The company derives revenue from retail (40% in FY'19) at a **ROE of 10.2%**, and wholesaling (60%) based on PPAs.

- On February 11, NEE's proposal was sent by the Department of Administration to the House and Senate Finance Committee for evaluation where **The House Finance Committee voted 19-3 to move negotiations with NEE forward**. The Senate Finance Committee rejected all offers but left the sale and reform of the company on the table. We believe the Senate's decision results from NEE's plan to reduce Santee's workforce by ~925 employees by 2025. Although the negotiations will likely drag on, we believe the value that NEE offers to Santee's customers outweighs the negative effects of the lost jobs.
- We expect NEE to drive cost savings as the company pivots Santee towards clean energy sources. **NEE will drive the cost of Santee's power generation down 31%** and reduce CO_2 emissions by 5.6mm tons through 2024 as it shifts the companies power generation to cleaner energy sources (shown below). When NEE eventually files for a new rate case for Santee, we see a potential 1.4% increase to its ROE, based on FPL's ROE of 11.6%, **driving earnings growth of 14%** (assuming constant equity).

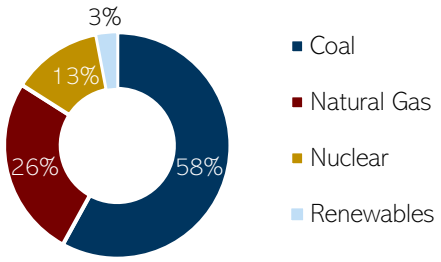
"We do not see Gulf Power as an anomaly; rather, we see Santee Cooper as providing the same type of opportunity to produce tremendous value for the businesses of South Carolina."

– CEO of NextEra, James Robo

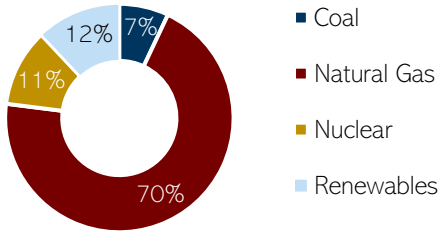
NEE Bid for Santee Cooper			
Sources ($mm)		**Uses ($mm)**	
Cash & Hybrid Securities	5,445	LT Debt	6,553
Corporate Bonds	2,691	ST Debt	306
		Defeasance Premium	1,046
Securitized Bonds	1,325	Refund to Santee Customers*	941
		Payment to Santee	500
		Santee Exp Reimbursement	15
		Escrow	100
Total Sources	9,461	Total Purchase Price	9,461

*For a failed nuclear power plant project

Santee 2018 Generation (by MWh)



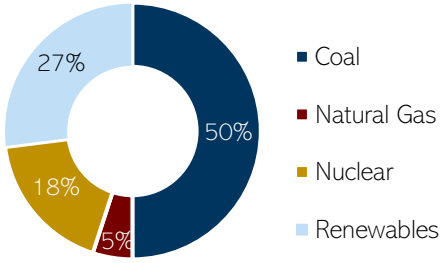
Santee 2024 Generation (by MWh)



Evergy, Inc.

Evergy, Inc is the most recent and undeveloped potential acquisition in NEE's buying spree. Evergy matches NEE's MO for acquisition targets, with an antiquated and dirty power source supplying electricity to primarily retail customers. While it is still too early in the process to make any concrete projections (interest announced on Friday morning), our team is hopeful that Evergy could offer a similar opportunity as Santee and Gulf Power.

Evergy 2019 Generation (by MWh)



UNDERVALUATION & THESIS

- From late 2015 to January 2020, NEE's NTM PE multiple steadily climbed from 16x to 31x as investors realized that its investments into renewable energy were not a far-fetched hope for a cleaner earth, but rather a strategic positioning to capture a fundamental shift in how the world views energy production. ***Put plainly, NEE is the best company to own in the energy & utility universe, with a dominant position in the US renewables market and a best-in-class regulated electric company with operations in Florida.*** Thanks to COVID-19, The Fund now has the rare opportunity to build a position in NEE when it is trading below its one-year average NTM PE multiple.
- While its current multiple of 24.4x represents a premium to the broader market, we believe that its long-term growth prospects and competitive advantage in its renewable energy business justifies that premium. We, therefore, view its intrinsic discount to itself on a one-year average multiple and Sum-Of-The-Parts valuation (7.2% and 16.1%, respectively) as an ideal entry point to a name that we believe will be a multi-year bellwether in the energy & utilities portfolio.
- To address the COVID-19-induced short-term fears that drove NEE's selloff, we believe that investors are discounting two important insulators to NEE's business. First of all, the broad electric utility sector sold off as investors feared a reduction in industrial electrical usage. That sell-off is warranted, assuming an even distribution of customers or a bias towards industrial customers. NEE, fortunately, derives 55% of its regulated electric utility revenue from residential customers, who's consumption will likely increase with stay at home orders, 35% from commercial customers and only 10% from industrial partners. We, therefore, ***expect its regulated utility business to see minimal negative effects from the pandemic.***
- As for investments into renewable energy, we would be concerned that a high portion of those projects would be delayed, if it was not for the tax credits available. The current bill that grants tax credits to solar and wind powered investments and makes them more affordable is set to phase out between 2020 and 2022. We believe that the uncertainty surrounding whether a similar initiative will continue granting those tax credits after the phase out ***will prevent companies from postponing investments into renewable energy***.

ECONOMIC MOATS & RISKS TO INVESTMENT THESIS

Risks to the Investment Thesis

- **Mergers Gone Wrong:** NEE is in the midst of pursing two mergers, albeit with very different timelines. In January of 2019, NEE made an official, ~$9.5bn bid for the South Carolina, state-owned electric utility company Santee Cooper (SC). The state must decide between a deal that would focus on reforming SC under state-ownership or a privatization of the utility. While some officials advocate for the sale to NEE, like the State Governor and the CEO of the South Carolina Small Business Chamber of Commerce, others oppose it with fears of another private company putting strain on the residential customers. We are confident that NEE's proposal represents the best option for the residents of South Carolina and that NEE will execute the acquisition with similar results to the Gulf Power acquisition (cut O&M, lower rates, increase power sourced from renewables), however, inherent risks lie in acquisitions. We see investor sentiment shifting if the state decides to maintain ownership of the utility or if NEE's cost-cutting and rate-base-expanding initiatives do not go as planned. The second acquisition is in an even earlier stage, as reports broke on Friday April 3 that NEE hired Citi bankers to pursue the acquisition of Evergy. Evergy is a public electric utility that serves the Kansas City Metropolitan area, that is apparently open to an acquisition due to pressure from activist-investor Elliot Capital Management.
- **Disrupting the Disrupter:** As we discussed in the first catalyst, NEE offers a one-of-a-kind renewable generation and storage hybrid facility that we expect will be the most successful renewables option over the coming years. While NEE is unique in its capabilities and scale, we recognize that technology is always evolving. In the current environment, we believe that NEE has a significant edge to other renewables operators that would compete for contracts, but a shift in available technology could change that. For example, if a renewable operator invented a world-class battery or entered into an exclusive contract with the manufacturer of one, that technology could make the operator more appealing than NEE. As we've discussed, high-capacity and efficient batteries are one of the keys to making complete-reliance on renewable energy plausible, because they step in when the wind stops blowing and the sun stops shining.
- **Rate Case Rejection:** As discussed in the industry overview, rate cases often require the company to outline specific capital projects that the company has/will undertake to boost reliability and sustainability. For NEE, this process poses a potentially substantial risk, as it began storm-hardening projects to move overhead powerlines, underground. If regulators are unwilling to accept the cost of these projects, NEE may not be able to recover its deployed capital and therefore sacrifice the ability to earn the top-end of its allowed ROE range. On another front, a reduction in these projects, from a lack of cost recovery, could put the reliability of NEE's distribution services at risk.

Economic Moats

- **First Mover Advantage:** NEE is the first renewable company to build large-scale hybrid generation facilities, with wind and solar powered generation and battery storage. Most renewable companies have a single area of expertise, for example wind or solar power generation or battery storage. Additionally, hybrid generation facilities require huge amounts of data to be successful, which will also make it more difficult for other companies to catch NEE in the newest renewable energy trend. Before breaking ground on a new facility, renewable companies need to know wind, current, or sun patterns (depending on the type of renewable energy) so they can maximize power generation. Companies without the diverse renewable energy capabilities or the scale to gather data needed for those facilities will not be able to compete with NEE.
- **Customers First:** NEE's FPL business provides the cheapest rates for its clients in Florida and provides rates $41 under the national average. While cheap rates may not seem like a meaningful moat, it protects FPL from scrutiny for its industry-leading allowed ROE by regulators. If another entity challenged FPL's higher ROE and pointed to it as a sign that FPL was financially exploiting its clients, FPL would be able to point to its low rates as a justification for its high ROE.

PEER GROUP ANALYSIS

Alliant Energy Corp (LNT) is a regulated public utility holding company that operates under a number of subsidiaries, as well as its parent company. Its subsidiaries engage in the generation, distribution, and transmission of electricity to selective markets in Iowa and southern Minnesota, as well as southern and central Wisconsin (84% of FY'19 revenue). It also transports and distributes natural gas to the same markets (12%). The rest of its operations are corporate-focused.

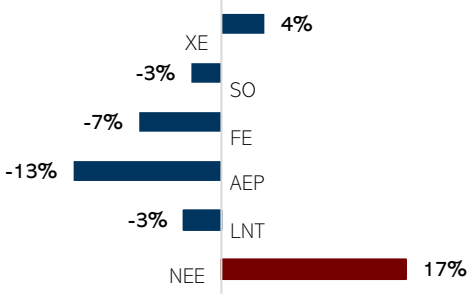
American Electric Power Co. (AEP) is a public utility holding company with 100% of its activities related to the generation, transmission, and distribution of electricity. AEP derived 89% of its FY'19 revenue from activities related to its regulated electric utility business, including the development and construction of transmission facilities, through multiple subsidiaries. 11% of its business operates in the non-regulated generation and marketing electric utility market. AEP operates a small renewables business that offers wind and solar solutions.

FirstEnergy Corp. (FE) is a regulated utility company that operates, transmits, and distributes electricity in the Midwest and Mid-Atlantic regions (OH, WV,MD, NJ, and NY). FE reports revenue under two segments: Distribution and Transmission (86% and 14% of FY'19, respectively). FE derives revenue from three primary types of customers: Residential (61% FY'19 revenue), Commercial (25%), and Industrial (12%). FE is one of the younger comps out of the group, established in 1996.

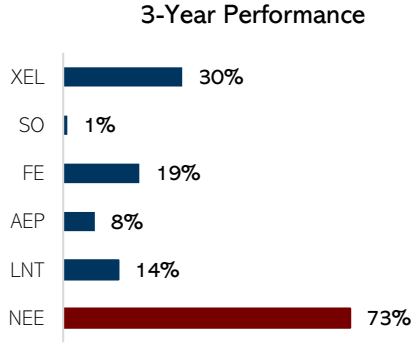
Southern Company (SO) is likely the best overall comp for NEE, with operations focused in the southern USA (AL, GA, FL, MI, IL, VA, NJ, and TN). SO earns revenue from three primary businesses: Regulated electric utility generation, transmission, and distribution (71% FY'19 revenue); wholesale non-regulated electric generation (renewables business) and marketing (9%); and natural gas distribution (17%). SO is the previous owner of NEE's Gulf Power subsidiary, and the largest comp we chose ($53bn market cap). SO's total electric sales revenue is 87% retail and 13% wholesale. Its retail sales are further broken down as follows: 43% residential, 35% commercial, and 22% industrial.

Xcel Energy (XEL) is the strangest comp for NEE. Along with its regulated electric and regulated natural gas utility businesses (83% and 16% of FY'19 revenue, respectively), with operations scattered across the US it also earns 1% of its revenue from a number of semi-related activities, including commodity trading, appliance repair services, low-income rental housing investments, and solid waste processing.

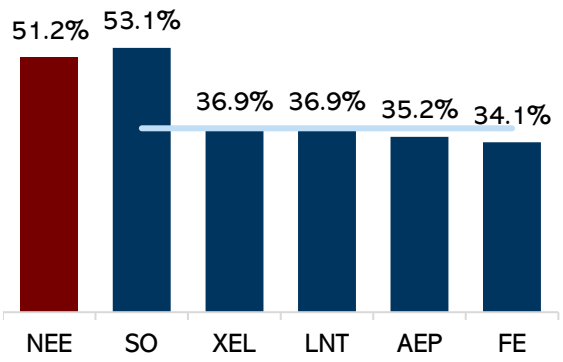
1-Year Performance



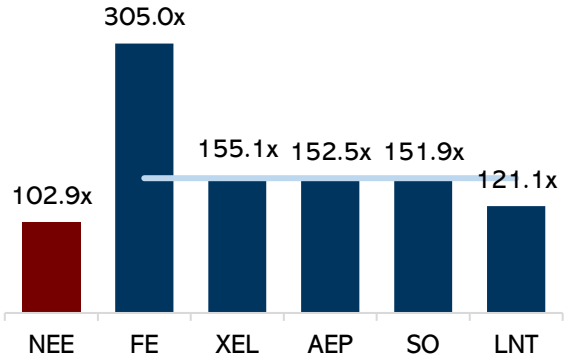
3-Year Performance



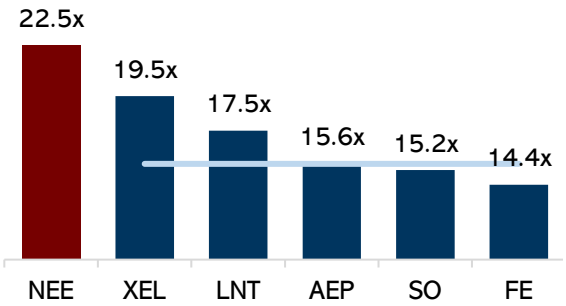
LTM EBITDA Margin



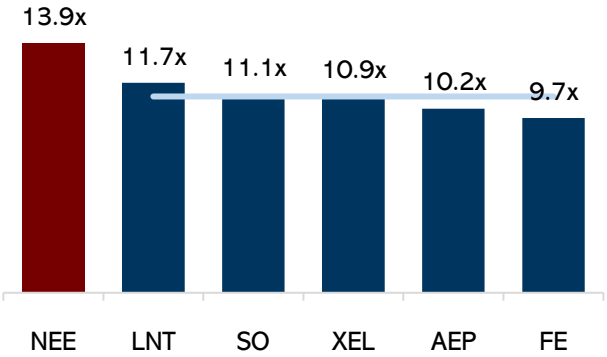
LTM Debt/Equity



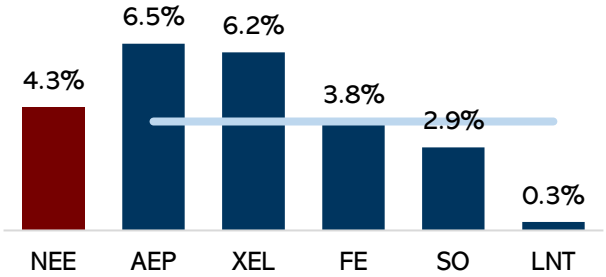
NTM P/E



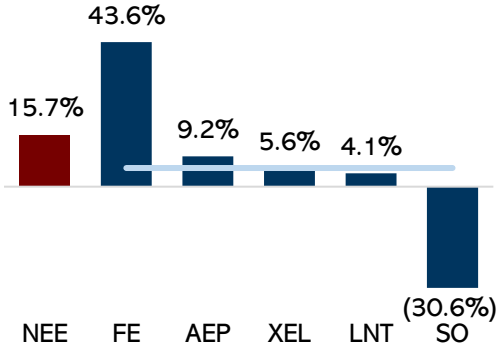
NTM EV/EBITDA



NTM Revenue Growth



NTM EPS Growth



NextEra Energy Inc - Comparable Company Analysis

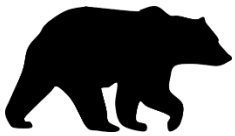
($ in Millions Except Per Share Data)

		Market	Enterprise	Sales		EPS		EBITDA Margin		Profit Margin		EBITDA		Sales		Price / Earnings	
	Ticker	Cap	Value	LTM	2020E	LTM	2020E	LTM	2020E	LTM	2020E	LTM	2020E	LTM	2020E	LTM	2020E
NextEra Energy Inc	NEE	$108,478	$155,801	14.8%	4.3%	(44.3)%	15.7%	51.2%	54.4%	19.6%	22.2%	14.3x	13.9x	7.8x	7.5x	24.5x	22.5x
American Electric Power, Inc.	AEP	35,875	66,119	(3.9)%	6.5%	(0.3)%	9.2%	35.2%	36.6%	12.3%	12.9%	10.9x	10.2x	4.0x	3.9x	16.6x	15.6x
Xcel Energy, Inc.	XEL	30,357	50,637	(0.1)%	6.2%	6.9%	5.6%	36.9%	34.7%	11.9%	12.1%	11.9x	10.9x	4.1x	4.0x	20.7x	19.5x
Alliant Energy Corp.	LNT	11,063	17,790	3.2%	0.3%	6.8%	4.1%	36.9%	38.1%	15.6%	16.3%	12.8x	11.7x	4.9x	4.7x	18.6x	17.5x
FirstEnergy Corp.	FE	20,559	41,151	(2.0)%	3.8%	27.1%	43.6%	34.1%	33.4%	8.3%	11.6%	10.7x	9.7x	3.6x	3.5x	15.2x	14.4x
Southern Co.	SO	52,720	103,976	(8.8)%	2.9%	107.8%	(30.6)%	53.1%	41.0%	22.2%	15.2%	11.5x	11.1x	4.7x	4.6x	15.9x	15.2x
High		$52,720	$103,976	3.2%	6.5%	107.8%	43.6%	53.1%	41.0%	22.2%	16.3%	12.8x	11.7x	4.9x	4.7x	20.7x	19.5x
Mean		30,115	55,935	(2.3)%	3.9%	29.7%	6.4%	39.3%	36.8%	14.1%	13.6%	11.6	10.7x	4.3x	4.1x	17.4x	16.4x
Median		30,357	50,637	(2.0)%	3.8%	6.9%	5.6%	36.9%	36.6%	12.3%	12.9%	11.5	10.9x	4.1x	4.0x	16.6x	15.6x
Low		11,063	17,790	(8.8)%	0.3%	(0.3)%	(30.6)%	34.1%	33.4%	8.3%	11.6%	10.7	9.7x	3.6x	3.5x	15.2x	14.4x

Company		General Statistics			Returns Analysis			2019A Leverage Analysis			2019A Coverage Analysis			Liquidity Profile		Credit Profile	
								Total Debt /									
	Ticker	Tax Rate	Beta	Dividend Yield	ROIC	ROE	ROA	Cap	EBITDA	Equity	EBITDA / Int. Exp.	(EBITDA -Cpx)/Int.	EBIT / Int. Exp.	Quick Ratio	Current Ratio	Moody's	S&P
NextEra Energy Inc	NEE	11.7%	0.91	2.5%	5.5%	11.1%	3.4%	50.7x	4.4x	102.9x	4.2x	(1.1x)	2.2x	0.21	0.53	Baa1	A-
American Electric Power, Inc.	AEP	--	0.91	3.9%	5.2%	10.2%	2.7%	60.4x	5.6x	152.5x	4.5x	(0.5x)	2.1x	0.23	0.40	Baa1	A-
Xcel Energy, Inc.	XEL	8.5%	0.93	3.0%	5.6%	10.8%	2.8%	60.8x	4.8x	155.1x	5.3x	0.0x	2.6x	0.39	0.68	Baa1	A-
Alliant Energy Corp.	LNT	10.8%	0.95	3.4%	6.4%	11.3%	3.5%	54.8x	4.9x	121.1x	3.7x	(0.8x)	2.1x	0.20	0.43	Baa2	A-
FirstEnergy Corp.	FE	19.1%	0.91	4.1%	8.5%	19.1%	2.2%	75.3x	5.7x	305.0x	3.4x	1.0x	2.3x	0.41	0.50	Baa3	BBB
Southern Co.	SO	27.5%	0.98	4.9%	5.9%	12.3%	4.0%	60.3x	4.3x	151.9x	6.3x	1.9x	4.3x	0.40	0.78	Baa2	A-
High		27.5%	0.98	4.9%	8.5%	19.1%	4.0%	75.3x	5.7x	305.0x	6.3x	1.9x	4.3x	0.41	0.78		
Mean		16.5%	0.94	3.8%	6.3%	12.8%	3.1%	62.3x	5.0x	177.1x	4.6x	0.3x	2.7x	0.33	0.56		
Median		14.9%	0.93	3.9%	5.9%	11.3%	2.8%	60.4x	4.9x	152.5x	4.5x	0.0x	2.3x	0.39	0.50		
Low		8.5%	0.91	3.0%	5.2%	10.2%	2.2%	54.8x	4.3x	121.1x	3.4x	(0.8x)	2.1x	0.20	0.40		

SCENARIO ANALYSIS

Bear Case: (14%)



Sum of the Parts Valuation	
Implied Enterprise Value	$137,361
(+) Cash & Equivalents	956
(-) Preferred Stock	0
(-) Total Debt	(41,267)
(-) Pension Obligations	0
(-) Non-Controlling Interests	(4,842)
	0
Implied Market Cap	$92,209
Shares Outstanding	486.0
Implied Price Target	$190
% Return	*(14.4%)*

Bull Case: 38%

Sum of the Parts Valuation	
Implied Enterprise Value	$196,132
(+) Cash & Equivalents	(104)
(-) Preferred Stock	0
(-) Total Debt	(42,058)
(-) Pension Obligations	0
(-) Non-Controlling Interests	(4,842)
	0
Implied Market Cap	$149,127
Shares Outstanding	486.0
Implied Price Target	$307
% Return	*38.4%*

Bear Case Assumptions

- The COVID-19 outbreak causes mass lockdowns in the US. As a result, electricity demand falls similar to the pattern seen in Europe. FPL and Gulf Power revenues drop in 1H'20.
- The COVID-19 outbreak also causes a delay in project buildouts for NEER, and some wind projects are scrapped after the tax credit phase-out. Revenue drops through 2020 but recovers moving into 2021.
- Capital Expenditures decrease and NEE is unable to make as many improvements to its asset base as it would prefer. This decreases the probability of successful rate base increases.
- Renewable energy growth slows and NEER's operating margins contract through 2020 and 2021 due to an increase in costs and a slowdown in revenue growth.
- The Federal Government does not extend tax credits for renewable energy past current levels. Customers may become more hesitant in building out long-term projects and NEER revenues slowdown through 2024.

Bull Case Assumptions

- Our bull case is derived from the continued growth in the renewables space and continued successful expansions in NEE's utility segment.
- Companies adapt renewable energy quicker than expected, and NEER's revenue increases at a faster rate than expected through 2020 and 2021.
- The utilities business expands into new markets, increasing market share, revenue, and potentially rate base.
- The Federal Government extends tax credits for renewables through 2024 and NEER continues to benefit through the end of the projection period.
- Batteries become efficient enough to close the gap between renewable farm generating ability and traditional fossil fuel generating ability.

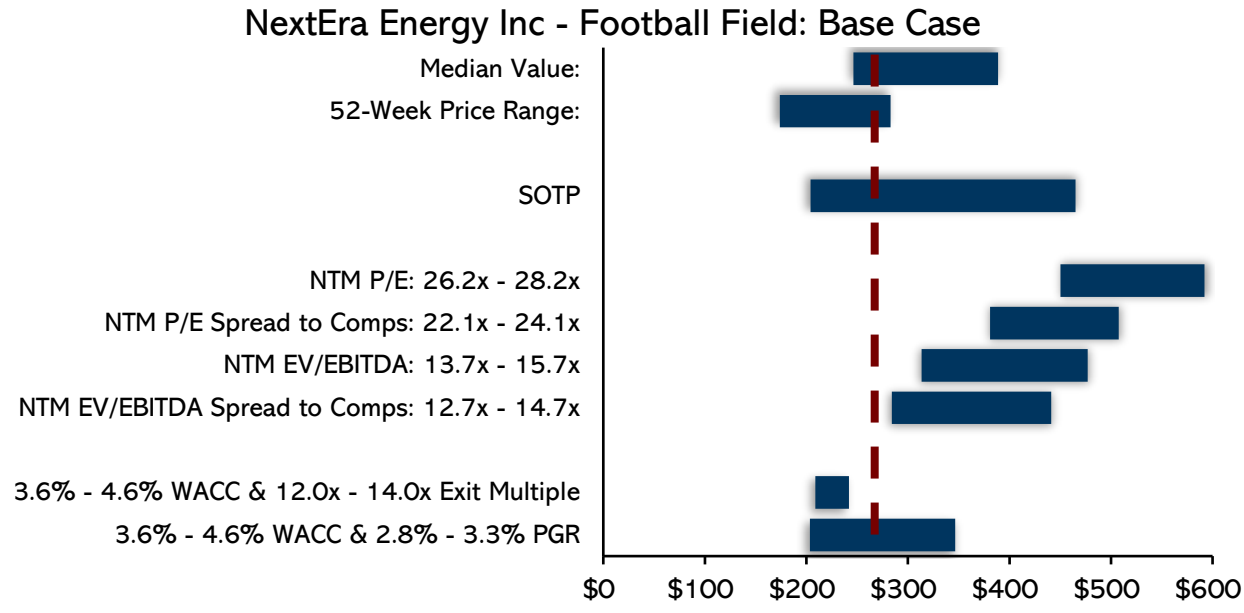
VALUATION ANALYSIS

SOTP Assumptions

We used an SOTP valuation to separate NEE's utility and non-utility business segments. For both segments we used 2021 EBITDA in order to eliminate the possibility of one-time issues related to the COVID-19 outbreak affecting the company. We do not believe that the outbreak will affect the long-term business, and therefore should not affect the valuation. For FPL and Gulf Power, we applied a 4x base premium to the comps average multiple in order to reflect NEE's premium assets and rate base capitalization. We changed this premium to 5x in the bull, and 2x in the bear cases respectively.

Segment	2021 EBITDA	Comp Multiple	Premium Applied	Implied Multiple	Implied EV
FPL	$6,928	11.4x	4.0x	15.4x	$106,696
Gulf Power	$600	11.4x	4.0x	15.4x	$9,244
NEER	$4,045	13.3x	0.0x	13.3x	$53,978
Corporate & Other	$75	11.4x	0.0x	11.4x	$861

Sum of the Parts Valuation	
Implied Enterprise Value	$170,779
(+) Cash & Equivalents	441
(-) Preferred Stock	0
(-) Total Debt	(41,267)
(-) Pension Obligations	0
(-) Non-Controlling Interests	(4,842)
	0
Implied Market Cap	$125,111
Shares Outstanding	486.0
Implied Price Target	$257
% Return	*16.1%*

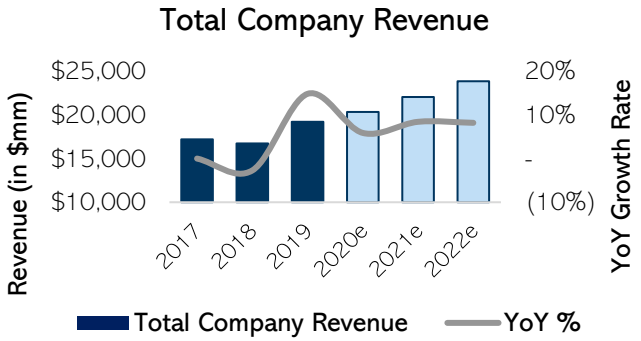


FINANCIAL ANALYSIS

Summary	2020e	2021e	2022e	2023e	2024e
Total Company Revenue	$20,330.4	$22,040.3	$23,842.3	$25,600.9	$27,286.6
% Growth	*5.9%*	*8.4%*	*8.2%*	*7.4%*	*6.6%*
FPL Revenue	$12,555.6	$13,492.1	$14,166.7	$14,733.4	$15,175.4
% Growth	*3.0%*	*7.5%*	*5.0%*	*4.0%*	*3.0%*
% of Total Revenue	*61.8%*	*61.2%*	*59.4%*	*57.6%*	*55.6%*
Gulf Power Revenue	$1,510.0	$1,548.7	$1,626.1	$1,691.2	$1,741.9
% Growth	*1.5%*	*2.6%*	*5.0%*	*4.0%*	*3.0%*
% of Total Revenue	*7.4%*	*7.0%*	*6.8%*	*6.6%*	*6.4%*
NEER Revenue	$6,264.8	$6,999.6	$8,049.5	$9,176.4	$10,369.4
% Growth	*11.1%*	*11.7%*	*15.0%*	*14.0%*	*13.0%*
% of Total Revenue	*30.8%*	*31.8%*	*33.8%*	*35.8%*	*38.0%*
Corporate & Other Revenue	$0.0	$0.0	$0.0	$0.0	$0.0
% Growth	*(100.0%)*	--	--	--	--
% of Total Revenue	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*

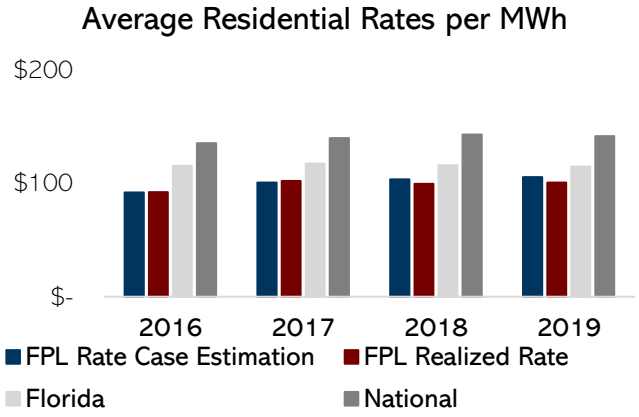
Total Revenue

- In 2019, the addition of NEER helped revenue grow 14.8% YoY. Moving forward, we expect revenue growth to level off, driven by strong growth in NEER and better than expected growth in the utility businesses.
- FPL and Gulf Power have the potential to increase revenue further as NEE prepares to file a joint rate base case application in 1Q'21.



Rate Base

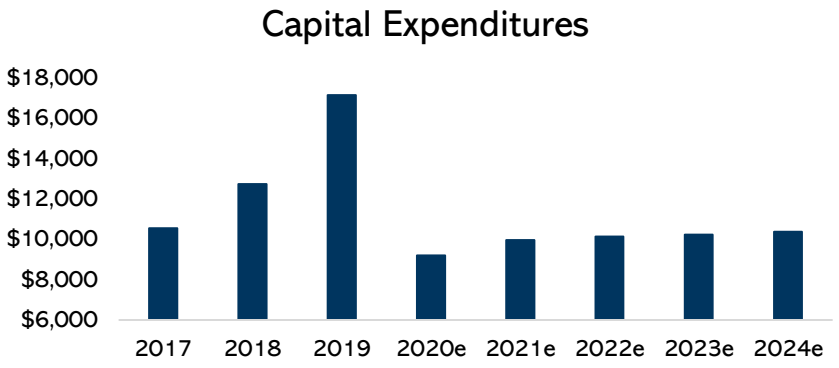
- In June of 2016, FPL filed a rate case to increase its rates as a result of increasing operating costs. The average bill at the time was $91.84/MWh and increased to $100.66/MWh for FY'17.
- As the company improved efficiency from 2016 through 2018, FPL's realized rate fell below its estimated cost of $103.31/MWh.
- In FY'19, FPL estimated cost of providing service was $105.45/MWh, which is below its realized rate of $100.45/MWh Clearly, the company's cost basis is below other utilities in Florida and extremely far below the average national rate year-after-year.



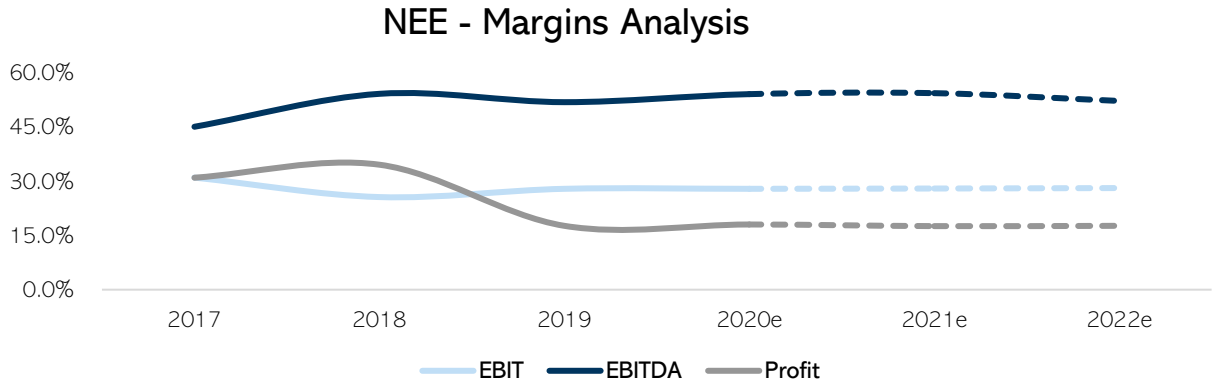
- For FY'20, the residential average cost for FPL is expected to be $96.04/MWh, while Gulf Power's expected cost is $140.43/MWh
- As the company files FPL and Gulf Power together, we expect the estimated cost to rise due to the current inefficiencies of Gulf Power that are being reduced by NEE. Beyond 2021, we expect NEE to drive down service costs and come in below the estimated cost as it did from 2016-2019.

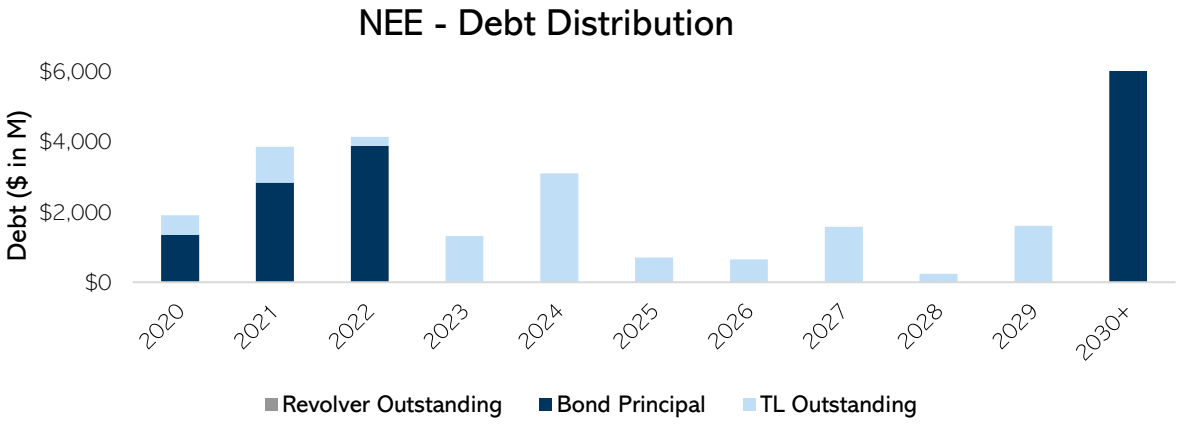
CapEx/Cash Flow

- NEE spends a significant amount on capital expenditures to support the build out of its renewable energy infrastructure. Over the next few years, we expect this trend to continue, but for capital spending to decrease from historical levels.



- This high level of CapEx causes negative FCF for the firm. We project NEE to slowly approach positive FCF as CapEx spending decreases. Our model shows NEE reaching positive FCF in 2024.





APPENDIX

Exhibit I: Consolidated Financial Statements

Consolidated Income Statement	2017	2018	2019	2020e	2021e	2022e	2023e	2024e
Revenue	$17,195	$16,727	$19,204	$20,330	$22,040	$23,842	$25,601	$27,287
YoY % Growth		*(2.7%)*	*14.8%*	*5.9%*	*8.4%*	*8.2%*	*7.4%*	*6.6%*
Gross Profit	$13,124	$12,995	$14,841	$16,155	$17,599	$18,572	$19,847	$21,084
% Margin	*76.3%*	*77.7%*	*77.3%*	*79.5%*	*79.9%*	*77.9%*	*77.5%*	*77.3%*
YoY % Growth		*(1.0%)*	*14.2%*	*8.9%*	*8.9%*	*5.5%*	*6.9%*	*6.2%*
EBIT	$5,326	$4,280	$5,353	$5,667	$6,161	$6,694	$7,219	$7,729
Margin	*31.0%*	*25.6%*	*27.9%*	*27.9%*	*28.0%*	*28.1%*	*28.2%*	*28.3%*
YoY % Growth		*(19.6%)*	*25.1%*	*5.9%*	*8.7%*	*8.6%*	*7.8%*	*7.1%*
Net Income (Loss)	$5,320	$5,776	$3,388	$3,661	$3,871	$4,206	$4,570	$4,929
Margin	*30.9%*	*34.5%*	*17.6%*	*18.0%*	*17.6%*	*17.6%*	*17.9%*	*18.1%*
YoY % Growth		*8.6%*	*(41.3%)*	*8.1%*	*5.7%*	*8.7%*	*8.7%*	*7.8%*
Adj. EPS (Diluted)	$11.38	$13.92	$7.76	$8.19	$8.60	$9.23	$9.95	$10.67
YoY % Growth		*22.3%*	*(44.2%)*	*5.5%*	*5.0%*	*7.3%*	*7.9%*	*7.2%*
EBITDA	$7,741	$9,053	$9,950	$10,985	$11,969	$12,435	$13,235	$14,016
Margin	*45.0%*	*54.1%*	*51.8%*	*54.0%*	*54.3%*	*52.2%*	*51.7%*	*51.4%*
YoY % Growth		*16.9%*	*9.9%*	*10.4%*	*8.9%*	*3.9%*	*6.4%*	*5.9%*

Consolidated Balance Sheet	2017	2018	2019	2020e	2021e	2022e	2023e	2024e
Cash & Cash Equivalents	$1,714	$638	$600	$904	$682	$727	$1,100	$1,770
Accounts Receivable	2,737	2,969	2,807	3,568	3,505	3,593	3,858	4,112
Inventory	1,273	1,223	1,328	1,627	1,577	1,581	1,697	1,809
Prepaid & Other Current Assets	1,457	1,563	2,673	2,845	2,795	3,100	3,328	3,547
Total Current Assets	7,181	6,393	7,408	8,943	8,559	9,000	9,984	11,239
PP&E, Net	$72,289	$70,334	$82,010	$86,217	$90,691	$95,264	$99,788	$104,170
Intangible Assets, Net	1,287	708	552	552	552	552	552	552
Goodwill	764	891	4,204	4,204	4,204	4,204	4,204	4,204
Other Non-Current Assets	16,442	25,376	23,517	23,517	23,517	23,517	23,517	23,517
Total Non-Current Assets	90,782	97,309	110,283	114,490	118,964	123,537	128,061	132,443
Total Assets	$97,963	$103,702	$117,691	$123,433	$127,524	$132,537	$138,045	$143,681
Accounts Payable	3,235	2,386	3,631	3,796	3,681	3,593	3,858	4,112
Accrued Liabilities	621	477	558	649	629	682	732	780
Other Current Liabilities	5,714	11,984	7,540	8,731	8,465	8,917	9,575	10,205
Total Current Liabilities (Excl. Debt)	9,570	14,847	11,729	13,175	12,775	13,192	14,165	15,097
Revolver	$0	$0	$0	$0	$0	$0	$0	$0
LT Debt (Incl. Current Portion)	33,083	29,498	39,667	42,367	45,067	47,767	50,217	52,667
Deferred Income Taxes	10,745	12,182	13,223	13,223	13,223	13,223	13,223	13,223
Other Non-Current Liabilities	15,034	9,294	11,225	11,225	11,225	11,225	11,225	11,225
Total Non-Current Liabilities	58,862	50,974	64,115	66,815	69,515	72,215	74,665	77,115
Total Liabilities	68,432	65,821	75,844	79,990	82,290	85,407	88,830	92,212
Common Stock & APIC	$9,105	$10,495	$11,975	$12,436	$12,974	$13,466	$13,978	$14,509
Retained Earnings	19,020	23,837	25,199	26,356	27,622	29,041	30,630	32,368
Treasury Stock	0	0	0	(22)	(35)	(50)	(65)	(80)
Accumulated Other Comprehensive Income (AOCI)	111	(188)	(169)	(169)	(169)	(169)	(169)	(169)
Total Shareholder's Equity	28,236	34,144	37,005	38,601	40,392	42,288	44,373	46,627
Noncontrolling Interests	1,295	3,737	4,842	4,842	4,842	4,842	4,842	4,842
Total Equity	29,531	37,881	41,847	43,443	45,234	47,130	49,215	51,469
Total Liabilities & Shareholder's Equity	$97,963	$103,702	$117,691	$123,433	$127,524	$132,537	$138,045	$143,681

TUIA STATEMENT

Established in honor of Professor William C. Dunkelberg, former Dean of the Fox School of Business, for his tireless dedication to educating students in "real-world" principles of economics and business, the William C. Dunkelberg (WCD) Owl Fund will ensure that future generations of students have exposure to a challenging, practical learning experience. Managed by Fox School of Business graduate and undergraduate students with oversight from its Board of Directors, the WCD Owl Fund's goals are threefold:

- Provide students with hands-on investment management experience
- Enable students to work in a team-based setting in consultation with investment professionals.
- Connect student participants with nationally recognized money managers and financial institutions

Earnings from the fund will be reinvested net of fund expenses, which are primarily trading and auditing costs and partial scholarships for student participants.

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