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Enbridge, Inc. (ENB)

Q1 2023 Earnings Call

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CORPORATE PARTICIPANTS

Rebecca Morley
Director-Investor Relations, Enbridge, Inc.

Gregory Lorne Ebel
Chief Executive Officer, President & Director, Enbridge, Inc.

Vern D. Yu
Executive Vice President-Corporate Development, Chief Financial Officer & President-New Energy Technologies, Enbridge, Inc.

Colin K. Gruending
Executive Vice President & President-Liquids Pipelines, Enbridge, Inc.

Cynthia L. Hansen
Executive Vice President & President-Gas Transmission and Midstream, Enbridge, Inc.

Matthew A. Akman
Executive Vice President-Corporate Strategy & President-Power, Enbridge, Inc.

OTHER PARTICIPANTS

Jeremy Tonet
Analyst, JPMorgan Securities LLC

Linda Ezergailis
Analyst, TD Securities, Inc.

Theresa Chen
Analyst, Barclays Capital, Inc.

Robert A. Catellier
Analyst, CIBC World Markets, Inc.

Robert Hope
Analyst, Scotiabank

Praneeth Satish
Analyst, Wells Fargo Securities LLC

Ben Pham
Analyst, BMO Capital Markets Corp. (Canada)

Andrew M. Kuske
Analyst, Credit Suisse Securities (Canada), Inc

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to the Enbridge, Incorporated First Quarter 2023 Financial Results Conference Call. My name is Brent and I will be your operator today. At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session for the investment community. [Operator Instructions] Please note that this call is being recorded.

I will now turn the call over to Rebecca Morley, Director-Investor Relations. Rebecca, you may begin.

Rebecca Morley

Director-Investor Relations, Enbridge, Inc.

Thank you. Good morning and welcome to the Enbridge first quarter 2023 earnings call. My name is Rebecca Morley and I'm the Director of the Investor Relations team. Joining me this morning are Greg Ebel, President and CEO; Vern Yu, Chief Financial Officer and President of New Energy Technologies; and the heads of each of our business units; Colin Gruending, Liquids Pipelines; Cynthia Hansen, Gas Transmission and Midstream; Michele Harradence, Gas Distribution and Storage; and Matthew Akman, Renewable Power.

As per usual, this call is being webcast and I encourage those listening on the phone to follow along with the supporting slides. We'll try to keep the call to roughly one hour. And in order to answer as many questions as possible, we will be limiting the questions to one plus a single follow-up if necessary. We'll be prioritizing questions from the investment community. So if you're a member of the media, please direct your inquiries to our communications team who will be happy to respond. As always, our Investor Relations team will be available following the call for any possible questions.

On to slide 2, where I will remind you that we'll be referring to forward-looking information on today's presentation and Q&A. By its nature, this information contains forecast assumptions and expectations about future outcomes, which are subject to the risks and uncertainties outlined here and discussed more fully in our public disclosure filing. We'll also be referring to non-GAAP measures summarized below.

With that, I'll turn it over to Greg Ebel.

Gregory Lorne Ebel

Chief Executive Officer, President & Director, Enbridge, Inc.

Thank you, Rebecca, and good morning, everyone, and thanks for joining us. I'm excited to be here today to review our first quarter results and provide an update on our business. It was another great quarter, so I'll start off by recapping some key highlights that underpinned our strong performance. I'll then take you through some strategic advancements we made in our core franchises. Vern will walk you through the financial performance and outlook. And, lastly, I'll close with a few key takeaways. And as always, the management team is here to address any questions you may have.

First quarter saw strong financial performance, a little ahead of our expectations and we are on track to meet our full-year guidance and our balance sheet continues to be in great shape too. We exited the quarter at 4.6 times debt-to-EBITDA, near the bottom of our range, all of which supports our BBB+ credit ratings. In addition, we were extremely pleased to announce yesterday that we have reached a settlement in principle with our customers on the Mainline toll framework. This is great news for us and our customers and we will comment more on that in a

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moment. On the asset acquisition front, we signed an agreement to acquire Aitken Creek Gas Storage in British Columbia, which enhances our LNG export strategy in Canada. And we completed the acquisition of Tres Palacios, further improving our competitive position in natural gas storage along the Gulf Coast. We also signed an LOI with Yara to construct with Yara to construct a blue ammonia production facility at our Ingleside Energy Center, which is a great example of how our existing conventional asset base is leading to exciting low-carbon opportunities. In renewables, we were awarded the 1-gigawatt Normandy Offshore Wind Farm, along with our partners EDF and CPPIB, which adds to our visible growth profile. We saw strong utilization across all of our system and delivered our second consecutive quarter of record Mainline volumes. And of course, we remain committed to delivering excellent safety performance. Across the corporation, we continually target lowering our total recordable incident frequency every year and have a great track record of doing so. Vern will touch on our progress towards our ESG goals and highlight a few new areas we're focusing on. But I would note that you can expect to see our sustainability report out later this month. All-in-all, another strong quarter. The new Mainline tolling settlement and growth initiatives all support our near-term guidance and our strong multi-year outlook.

So, let's touch quickly on the financial highlights. First quarter EBITDA is up 8% and DCF is up 3%. These results speak to our strong operational performance and the resilient low-risk nature of our business model in all economic circumstances. Our strong balance sheet leaves us plenty of room to execute the tuck-in M&A deals you've seen us announce recently and still leaves ample space to continue to grow further.

Now, let's take a closer look at the Mainline tolling settlement. I'm very pleased with yesterday's announcement that we have reached a settlement in principle with our customers on the Mainline. This really is a win-win-win. Our customers will receive first-choice service standards at a competitive toll. Enbridge will earn attractive risk-adjusted returns and society will have access to safe, secure and affordable energy for years to come. From a scheduling standpoint, it's status quo. The Mainline will continue as a common carrier system available to all customers on a monthly nomination basis. Year-to-date, Mainline volume performance has been strong and Q2 is shaping up to be another solid quarter.

Going forward, our incentive to maximize barrels on the system, combined with our new, more competitive toll and our unparalleled market access increases the attractiveness of our pipeline compared to others and ensures the Mainline will be well utilized by our customers for decades to come. The new Mainline toll will be stable and components of the toll will be indexed to inflation and we'll earn an attractive return similar to the one earned during the CTS agreement. Overall, this is a good deal for everyone and is a result of thoughtful, inclusive and constructive negotiation. So, I'd like to thank our customers and the Enbridge team for working so diligently and constructively on this positive deal framework.

On the right-hand side of the page, you can see some of the specifics of the new settlement. We can appreciate that there's a lot to digest with this deal and we're here to answer all your questions. But the bottom line that I want everyone to take away from today is that this is a good outcome for all parties involved. The new toll is in-line with our expectations and the provision we've been recording in our financial results. And looking ahead, our financial guidance and outlook are maintained under the new deal. And, finally, we're filing a settlement application with the CER and FERC and hope to have final approval before the end of the year.

So now, let's take a closer look at the other parts of our Liquids business. In Liquids Pipelines, we continue to advance our US Gulf Coast export strategy. We FID'd the initial phase of EHOT and expect to see operations begin in late 2025. We're about to launch a binding open season for Flanagan South to leverage available capacity of up to 95,000 barrels per day and provide additional market access to our customers. In addition to securing throughput on Flanagan South, the volumes would also secure long-haul demand on the entire Enbridge network. Subsequent to the end of the quarter, we took operatorship of the Gray Oak Pipeline and we will look for

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opportunities to optimize that system. Equally exciting is our low-carbon opportunity set which continues to grow. In March, we signed an LOI with Yara to jointly construct a blue ammonia production facility at the Ingleside Energy Center. This facility is expected to produce up to 1.4 million tonnes per year of blue ammonia backed by a long-term 100% offtake agreement.

We're also planning to construct a carbon capture and sequestration hub near Ingleside as part of our previously announced partnership with Oxy Low Carbon Ventures. So Ingleside is shaping up to be a one-of-a kind Swiss Army knife terminal with its world-class oil loading capacity, onsite storage and a suite of lower carbon developments and renewable power.

We're also continuing to advance our low-carbon plans north of the border where we are partnering with Capital Power and Heidelberg Materials to construct a carbon capture hub near Edmonton with phased-in service dates starting as early as 2026. And last but definitely not least, we also have seven solar self-power projects operating or under construction along the Mainline that reduces emissions and power cost exposure along our Liquids lines.

So, let's move on to some of the exciting developments in our Gas Transmission business. Last week, we announced that we're acquiring Aitken Creek Gas Storage from Fortis. This asset is well-positioned and will enhance our service offering to our customers and support our LNG export strategy. Also in Canada, we're looking to relaunch a binding open season for a second expansion of BC Pipeline's T-North in the second-half of this year. The engineering work on Woodfibre LNG is progressing on schedule. And of note, by using renewable hydroelectric power, Woodfibre will be the lowest-emission LNG export facility in the world.

In the US, we've just closed a successful open season on Texas Eastern in the Appalachia region and are pleased with customer interest. So, we'll look to sanction this expansion by the end of the year. And as mentioned earlier, we've recently closed our previously announced acquisition of Tres Palacios Gas Storage, adding 35 Bcf of gas storage which will support LNG along the Gulf Coast. Lastly, we're ready to proceed with the construction of the Rio Bravo pipeline once NextDecade reaches FID on its Rio Grande LNG, which should be by the end of June.

So now, let's take a closer look at Aitken Creek Gas Storage. Aitkin Creek is the only storage facility in BC that has connections to all the key egress pipelines, including Enbridge's West Coast and Alliance pipelines. The facility is uniquely positioned to support BC gas production in a volatile price environment. And with Western Canadian gas production expected to outpace demand and egress bottlenecks for the foreseeable future, Aitken Creek is well-positioned to create long-term value for Enbridge. We are acquiring the facility from Fortis for CAD 400 million plus customary closing adjustments. And we expect to earn a typical Enbridge return on the asset. Said another way, this is another strategic transaction with a single-digit acquisition multiple that should produce double-digit returns.

Now, let's move on to our latest announcement in our French offshore wind portfolio. In March, we were selected to develop France's largest offshore wind farm to-date with installed capacity of 1 gigawatt. Similar to our other French offshore wind farms, we've been awarded a long-term fixed price CfD indexed to inflation. We continue to demonstrate how we can grow the business with the same capital discipline and low-risk model that applies to our three other core businesses. This project will mark the sixth offshore wind project with our partners, EDF Renewables and CPP Investments, and plan to continue pursuing future awards in the region. Once complete, Centre Manche 1 will be located 32 kilometers off the coast of Normandy and is expected to supply electricity equivalent to the annual energy needs of 1.5 million people. Next steps for this project are planning, engineering and permitting, ahead of FID and we expect the project to be in operation around the end of the decade.

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Now, that we've reviewed the updates across our business, I would like to share our first-choice business model and how it's positioned in the current macro environment. During the first quarter, there was extreme volatility in interest rates and foreign exchange markets. But our results demonstrate how our low-risk model delivers in all cycles. As you can see from the chart on the right, we have hit guidance through challenging times in the past and we expect that to continue. Our earnings are projected with 98% of the cash flows being generated from either cost-of-service or contracted throughput. 95% of our customer base is investment-grade and 80% of our EBITDA comes from assets with built-in inflation protection against rising costs.

As discussed earlier, our balance sheet is in great shape and all of the agencies have reaffirmed our BBB high credit ratings. We actively manage our interest rate exposure and less than 5% of our debt portfolio is exposed to floating rates. Lastly, we borrow from more than 25 different lenders and have no exposure to any US regional banks. When you add all that up, we are able to deliver predictable returns through all market cycles and deliver a first-choice value proposition to our investors.

So now, let me turn it over to Vern to walk you through our quarterly financial results, our outlook, and update you on our ESG efforts.

Vern D. Yu

Executive Vice President-Corporate Development, Chief Financial Officer & President-New Energy Technologies, Enbridge, Inc.

Thanks, Greg, and good morning, everyone. 2023 is off to a great start. Strong operational performance resulted in an 8% increase in EBITDA and a 3% increase in DCF per share year-over-year. For the second quarter in a row, Mainline volumes averaged over 3 million barrels per day. And with the new tolling settlement, we are confident our system will remain highly utilized well into the future. Gas Transmission utilization remained high and Q1 included higher Texas Eastern revenues from our recent FERC-approved rate case settlement.

Our Utility business was also up in the quarter but the outperformance was mostly due to a change in the timing of storage and transportation margin, which will reverse over the balance of the year. We'll talk in a little bit more about the seasonality in our business.

Our Renewables business benefited from extremely high European power prices last year. These prices have returned to more normal levels this year. At Energy Services, our transportation commitments expired during Q1 and market backwardation had softened compared to the same period in 2022. The quarter also benefited from a stronger US dollar which contributed to higher EBITDA.

Below the line, higher interest rates on floating rate debt, the timing of maintenance capital and higher NCI distributions from our Athabasca Indigenous Investment partnership, partially offset the strong operational performance coming from our businesses. Enbridge continues to be well-positioned to navigate market volatility as we saw in the first quarter. Our results demonstrate the low-risk nature of our business model and also demonstrate the predictability of our financial and operational performance.

So let's take a moment and talk about the seasonality of our business. Q1 and Q4 are typically our strongest financial quarters. Interim winter, more cash flows on our Gas Transmission system and there are more peaking days. Similarly, at the Utility, the majority of heating degree days are weighted towards the colder months. In our Liquids business, refinery turnarounds typically take place in the spring and the fall, which means our deliveries are lower during these periods. All of this is built into our annual guidance and we're on track to meet that guidance this year.

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So, let's talk about that now. As Greg mentioned, we are reaffirming our 2023 guidance that we provided last November. The Mainline settlement is in-line with our expectations and the toll provision that was baked into our plan. We're expecting continued strong operating performance across all of our businesses and the stronger US dollar provides a slight tailwind for our results. However, warmer weather, rising interest rates, modest inflationary pressure on our operating costs and commodity price backwardation in our Energy Services business unit are hurdles we're looking to offset. On the risk management front, substantially all of our US dollar DCF exposure has been hedged for the year at approximately 1.37. And since our last update, we've reduced our floating rate debt exposure for the remainder of the year. It's now below 5%. So, all-in-all, we're in good shape here.

Let's move to our medium-term financial outlook, which we're also reaffirming today. There's no change to what we shared with you at our Investor Day in March. In the first bucket, we've made good progress on rate cases and the new Mainline settlement allows us to continue to optimize our Liquids Pipelines business.

In the second bucket, we're advancing opportunities to build out our secured organic growth projects with the Normandy Offshore Wind Project and the Yara blue ammonia JV. We're also advancing a number of open seasons on our systems. We will be launching our Flanagan South open season soon and we've closed our Appalachian region, Texas Eastern open season. And we're still planning a T-North open season for later this year.

Last but not least we're judiciously deploying our investment capacity. During the quarter, we announced the acquisition of Tres Palacios, our joint venture with Divert, and this week we announced the acquisition of Aitken Creek Gas Storage. We continue to execute our strategy and effectively allocate capital to deliver the growth we're committed to. We view prudent capital allocation as being a big part of our investment thesis and we continue to strive to maximize shareholder returns. Let's move on to that now.

Our capital allocation priorities are unchanged. Our number one priority is maintaining a strong, flexible balance sheet. Q1 debt-to-EBITDA was 4.6 times, leaving us plenty of room to execute our secured capital program. We'll continue to return capital to shareholders through a sustainable and growing dividend while maintaining the dividend within our 60% to 70% payout range. In addition, we'll look for opportunities to selectively repurchase shares at reasonable prices and you will see we did a little bit of that earlier in April. Our free cash flow and financial flexibility provides us with roughly CAD 6 billion a year of investment capacity and we will allocate capital only to the best of the many opportunities that we have in front of us.

Let's now turn to our secured growth program. Today, our secured growth program sits at about CAD 17 billion. It's diversified across our businesses and will be deployed over a number of years, which mitigates today's cost pressures, which are coming from tight supply chains and tight labor pools. Since Enbridge Day, we have added the Enbridge Houston Oil Terminal to the secured growth program as that project has now reached FID. As I said earlier, our equity self-financing model provides us with approximately CAD 6 billion of annual investment capacity where we have plenty of room for more organic growth, asset acquisitions, debt repayments and share buybacks.

Let's finish up with ESG. I want to echo what Greg said earlier about ESG. We remain committed to being an industry leader, not only because it's the right thing to do but it's a fundamental enabler of our business. As an example, every investment opportunity we evaluate must have its own net zero emissions plan built into its project economics. As you've already heard, we've announced our JV with Yara to build on a blue ammonia production facility and we plan to sequester approximately 95% of the facility's CO_2 emissions using carbon capture and storage. This quarter, we issued the largest sustainably (sic) [sustainability]-linked bond in US history at about $2.3 billion. This brings our total sustainabily (sic) [sustainability] -linked financings to over [ph] CAD 7 billion (00:22:50).

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On diversity and inclusion, we have set ambitious workplace representation goals for ourselves and we're tracking well against these goals. At Enbridge, we are dedicated to creating an inclusive work environment for all of our employees. Our strong board refreshment practices bring in new perspectives and expertise, including directors with experience in indigenous engagement, new energy technology and energy transition. Since 2021, we've added five new directors and effective January 1 of this year, Pamela L. Carter was appointed Chair of our Board and she's our first female and our first black Chair.

With that, I'll pass it back to Greg.

Gregory Lorne Ebel

Chief Executive Officer, President & Director, Enbridge, Inc.

Well, thanks very much, Vern. And as we wrap-up here for questions, let me leave you with a few key takeaways. With the Mainline tolling settlement moving toward approval, our guidance and outlook remain unchanged and we are now even better positioned to serve our customers' growth plans. Enbridge's low-risk commercial model positions us to withstand market volatility and deliver predictable results and consistent growth on your behalf. We're still laser-focused on balance sheet strength and executing on our growth program within our equity self-funding model. And at Enbridge, ESG leadership in the industry is not only good practice but also a key component of our license to operate and continue growing.

Thank you. And now, let's open up the lines for your questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Jeremy Tonet with JPMorgan. Your line is open.

Jeremy Tonet Q

Analyst, JPMorgan Securities LLC

Hi. Good morning.

Gregory Lorne Ebel A

Chief Executive Officer, President & Director, Enbridge, Inc.

Good morning, Jeremy.

Jeremy Tonet Q

Analyst, JPMorgan Securities LLC

Thanks for all the information today. Just wanted to see if we could go to yesterday's big announcement with regards to Mainline agreement. And if I look at the waterfall chart, just a few points I want to clarify there, if it's scaled proportional to actual number, if this is the net total impact at 2023 or is it just a half-year impact? And if it's a full-year impact, is it still CAD 5 billion EBITDA next year? Just trying to gauge those items.

Gregory Lorne Ebel A

Chief Executive Officer, President & Director, Enbridge, Inc.

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Yeah. Good question. I think maybe we'll start with Vern and then maybe Colin will have something to add too. We're shocked at the first questions on the Mainline.

Vern D. Yu
Executive Vice President-Corporate Development, Chief Financial Officer & President-New Energy Technologies, Enbridge, Inc.
A

Hi, Jeremy. I think you're referring to the supplementary material that we provided yesterday as part of our announcement. I think the key thing to think about is the provision that we've been booking is based on a whole host of factors and we went through a lot more granularity than we normally would to give the Street a better sense of what's actually happening. So, there's obviously a downward revision of the toll, offset by a bunch of other factors.

All that being said, the provision is in-line 100% what we've been booking through the interim period and what we expect to see in 2023. Obviously, our auditors have signed off on that. And as we look forward to 2024 and beyond, obviously the EBITDA from the Mainline is going to go up and down a little bit with volumes, the level of toll foreign exchange rates on the Lakehead portion of the toll and now we have this inflation escalator at CPI and the power price escalator at the basket of power prices that we're going to see across all the regions that we pump crude in. So, I think the long and the short of it is 2023 guidance is intact and our medium-term outlook remains unchanged.

Jeremy Tonet
Analyst, JPMorgan Securities LLC
Q

Got it. That's very helpful there. Thanks. Then the follow-up is just the knock-on effects. Downstream, there is – it seems like there could be some very nice leverage to what this does to your system. So, wondering if you could just walk us through a bit on that Flanagan South expansion. What have you – just how do you think about new opportunities unlocked with this agreement?

Colin K. Gruending
Executive Vice President & President-Liquids Pipelines, Enbridge, Inc.
A

Hey, Jeremy. It's Colin. Yeah. It's all part of the singular path. So, we think about it holistically and from a competitiveness and attractiveness perspective. So, we'll be – well, we're sounding market right now on Flanagan South and we're confident we'll move to an open season here this summer shortly. There is interest in further egress at South. And I think the order of operation here helps with having a Mainline settlement in principle to underpin a good chunk of the distance-based toll. So, that's now coming into focus on Flanagan South. And the EHOT is exciting too. We're going to have a big heavy oil terminal down in Houston for customers to work with, either for local Houston distribution, displacing what was former imported crude which is declining, but then also optionality for future export of heavy out of the Houston market.

So that whole path is coming into better focus. It's already well used. We're already moving, on a monthly basis here, 500,000 to 600,000 a day down on that path. So – and there's 40-plus refineries connected directly or indirectly on that path. So lots of optionality, which should I think be very competitive.

Jeremy Tonet
Analyst, JPMorgan Securities LLC
Q

Got it. That's helpful. I'll leave it there. Thanks.

Gregory Lorne Ebel
Chief Executive Officer, President & Director, Enbridge, Inc.
A

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Thank you.

Vern D. Yu
Executive Vice President-Corporate Development, Chief Financial Officer & President-New Energy Technologies, Enbridge, Inc.

A

Thank you.

Operator: Your next question is from the line of Linda Ezergailis with TD Securities. Your line is open.

Linda Ezergailis
Analyst, TD Securities, Inc.

Q

Thank you. Looking beyond this year and thank you for reiterating the guidance, just want to get an updated philosophy on your earnings at risk approach and where you are at for next year and beyond? Historically, you've limited to your earnings at risk to below 5% from market-based exposures, whether it was FX, interest rates, residual commodity exposure. And I'm just wondering if you could give us a sense of how much of your 2024 plus EBITDA and earnings are hedged [indiscernible] (00:29:43) perspective, how much interest rate, floating exposure you might have and any other commentary you can provide on that front would be appreciated.

Vern D. Yu
Executive Vice President-Corporate Development, Chief Financial Officer & President-New Energy Technologies, Enbridge, Inc.

A

Hi, Linda. It's Vern. So, we look at earnings at risk on a 12-month rolling basis, so 12 months forward. On that metric, we're something around 2% to 2.5% today. So we're well-managed out through this year and the first-half of next year. I think for our floating rate book, we've started hedging 2024. We have about 20% hedged now and we'll continue to hedge through the year just to decrease volatility both in our cash flows and earnings. So, our philosophy hasn't changed where we want to be highly predictable and we'll take out that unpredictability as we go through the year.

Linda Ezergailis
Analyst, TD Securities, Inc.

Q

Thank you. And just as a quick follow-up, just big picture in British Columbia. Might you be augmenting the service offerings you provide to shippers in the region or might you be maybe doing a little bit more than yourself with the open capacity on Aitken Creek and some of your other physical transportation assets in the region? And can you comment as well how Aitken Creek kind of enhances what you might be doing on T-North and T-South long-term?

Cynthia L. Hansen
Executive Vice President & President-Gas Transmission and Midstream, Enbridge, Inc.

A

Thanks for the question, Linda. Yeah. Aitken Creek is obviously a great fit for us because of our existing infrastructure in that area and there's going to be synergistic opportunities in how we operate those assets. Part of that will be looking at, as you say, what those opportunities are to work with our customers to look at contracting in that space. Obviously, we're bullish on the fundamentals and we see that as a great opportunity to look at providing additional contracting opportunities to our customers in that space. So, more to come on that. But just with our assets, it does provide more flexibility for how we operate our other existing storage with wheeling and other synergistic opportunities for us like that. Thank you.

Gregory Lorne Ebel
Chief Executive Officer, President & Director, Enbridge, Inc.

A

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Hey, Linda. The only thing I would add is that consistent with Vern's comments, as you know Aitken Creek had a little bit less contracted storage than what we usually look at. So, don't be surprised to see us look to contract that up over 50% and may even be closer to two-thirds. That's just – I think that makes sense for us in our model. But as Cynthia says, that's the kind of asset that should give us a lot of flexibility to serve our customers on the LNG side and of course folks in the lower Mainline and beyond. So, pretty excited about that asset.

Linda Ezergailis
Analyst, TD Securities, Inc.

Q

Thank you.

Operator: Your next question comes from the line of Theresa Chen with Barclays. Your line is open.

Theresa Chen
Analyst, Barclays Capital, Inc.

Q

Good morning. Turning to the US Gulf Coast on the Liquids front, can you talk about the status of the potential way of expansion now that you've taken over operatorship of the system, just given the backdrop of Permian to Corpus lines continuing to be full? And are you interested in owning potentially more of that corridor given the incremental interest that you've acquired so far?

Colin K. Gruending
Executive Vice President & President-Liquids Pipelines, Enbridge, Inc.

A

Yeah. Hey, good morning, Theresa. It's Colin. Yes, generally. To answer more specifically there, yeah, we just took over operation at Gray Oak in April, so last month. We've already, with our partners, unlocked 25,000 barrels a day of extra capacity, which is indicative of demand to your point. There's a strong foreign bid for that crude. And, of course, our Ingleside facility is a natural pull as well, which is very competitive. So again, we're in markets sounding for shipper interest and preference and that will inform our open season that will run this summer. We're looking, ballpark, up to another 200,000 barrels per day expansion there. Many or maybe even most customers are interested in dual service including Ingleside capacity, that integrated path. So it's looking really good and there's also the potential that we could extend the Gray Oak over to EHOT over in Houston there which would bring heavy down from Canada and light over from the Permian and it's pretty exciting.

So, listen, we're really bullish on what's happening there. We're excited about our strategy and how it's been unfolding through acquisition, selectively through some asset swaps to get into Gray Oak, picking up some of the minority interests, and we're interested in other assets in the region. If you step back from the global supply to [indiscernible] (00:35:06) on this, the world cannot function without Western Canadian or Permian crude, full stop. So we're following the fundamentals.

Theresa Chen
Analyst, Barclays Capital, Inc.

Q

Got it. And as a follow-up, just when we think about the broader Gulf Coast crude infrastructure asset, something that we've heard discussed repeatedly in the industry is that importance of being able to deliver neat barrel and quality segregation, especially if you are going to extend Gray Oak to EHOT and have a more comprehensive integrated system. So, can you talk about your ability to do that and how that may lend itself to a competitive advantage when seeking commitments or dedications over time?

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Colin K. Gruending
Executive Vice President & President-Liquids Pipelines, Enbridge, Inc.

A

Yeah. That's been a hallmark of Enbridge on all our systems, whether in Canada or in the Permian, is that batch quality that FedEx service, if you like, segregating quality. It's a valuable commodity, it needs to be protected. And I think we have a track record of doing that relative to other business model. So, yeah, that's a part of our competitive offering in addition to just outright, cost-effective tolls and some of the advantages at Ingleside that we've talked about many times to be competitive, CAD 0.30, CAD 0.40, CAD 0.50 integrated export tolls are material in the global scheme. So, it's all part of the mix. I'm glad you mentioned that one. Thanks.

Gregory Lorne Ebel
Chief Executive Officer, President & Director, Enbridge, Inc.

A

Yeah. And as you know when you think about it even with the toll deal, I mean everything we're trying to do is designed to be that first-choice supplier. And – so sure, on the toll deal, there's always a little give-and-take but a good fair income that really incents us to give better service to our customers to use the Mainline. And obviously, that ultimately can get people down to the Gulf in PADD III. And then just what we're doing out of the Permian, I think we really are trying to build that super system and really make sure that the shippers and the customers that we have actually have an opportunity to maximize their returns in the best markets. And that's what it's all about and I think we're just getting more competitive every day.

Theresa Chen
Analyst, Barclays Capital, Inc.

Q

Thank you.

Operator: Your next question is from the line of Robert Catellier with CIBC Capital Markets. Your line is open.

Robert A. Catellier
Analyst, CIBC World Markets, Inc.

Q

Hi. Good morning and congratulations on the Mainline deal. I know that's a monumental task for everyone involved. I wondered if you could spend a minute on the risk-sharing front. It looks to me like the setup here is for a lower dispersion of outcomes, so less risk, it would seem. So, I wonder if you could talk about what you see as the biggest wins on risk-sharing? And, in addition to that, what are the key leverage points to achieving the upper-end of ROE collar other than obviously just volumes?

Colin K. Gruending
Executive Vice President & President-Liquids Pipelines, Enbridge, Inc.

A

Sure. Robert, I can take it. So, this is our seventh vintage of incentive arrangement with customers. And – I mean that should tell you something right away that customers want us to be aligned and hustle for them and win when they win. So we've got another version of it. Each time we renew or renegotiate it, we tweak a couple of things. I would say thematically in this version of the incentive framework, we've added a risk package, I think as you put it. It's a few different individual mini-risk mitigants and then there's the overall performance collar which is actually is kind of a big risk package in itself which is all-inclusive. So, we've got a couple layers of defense here. Will we need them? Maybe not. But it's the Enbridge preference to have them. You've seen our commercial model. So, as you think about the risks, we've been managing these risks for a long time.

The one we can't control is volume. That's a shipper-controlled risk. We have strong views on fundamentals and high conviction in the competitiveness of our system. And it's going to remain circa 95% to 100% full here through

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the piece. There's an improved foreign exchange outlook for us in that the Canadian portion of the toll will be tolled in Canadian dollars, not US dollars like it was. We've got the Line 3 ratchet which isn't new, by the way, but I think it's relatively new. So, I'd remind people of that CAD 0.035 toll ratchet which is meant to temper volume volatility for every 50,000 barrels, the toll moves CAD 0.035.

We've also – and I think it was implicit before but now we have agreement in principle to recover on end-of-capital for Line 5 investments. So there's a few different I would say smaller risk mitigants. And then there's the bigger collar risk-mitigant. So you're right. All with the intention of kind of narrowing the dispersion of outcomes for all; shipper and Enbridge so that it's a fair competitive solution. And as Greg was saying earlier that society continues to win as well.

Does that help? Was that where you were going with the question, Robert?

Robert A. Catellier Q
Analyst, CIBC World Markets, Inc.

It was. And then the second piece of it is just what do you think other than volume is the biggest leverage point to hit the upper-end of the ROE collar?

Colin K. Gruending A
Executive Vice President & President-Liquids Pipelines, Enbridge, Inc.

Yeah. I think on that count, I think it's well-understood that the first few years here we're going to be in the upper-half of that range just given 2021, 2022 and 2023 have strong volume throughputs already. And then, over time, you've got pretty strong volumes we think through, through the term here and on a slightly declining rate base. So, think about that as well.

I think the other smaller drivers would be our ability to manage within the inflators and control our costs and power costs. That's what shippers want us to do and we'll try to do that. FX as well I think will play a part in there but Vern's team is on that and trying to manage that and lock it down as well.

Robert A. Catellier Q
Analyst, CIBC World Markets, Inc.

Well, that's helpful. Thanks everyone.

Colin K. Gruending A
Executive Vice President & President-Liquids Pipelines, Enbridge, Inc.

Thanks, Robert.

Operator: Your next question is from the line of Rob Hope with Scotiabank. Your line is open.

Robert Hope Q
Analyst, Scotiabank

Good morning, everyone. A question on the Mainline. It would seem since the – or let's say over the last six months the commentary on the volume outlook for the Mainline has strengthened and Colin just noted that you're expecting 95% to 100% utilization there. Can you maybe talk to kind of what is driving this increased confidence on the Mainline volume outlook? Is it potentially where the toll shook out for the Mainline? Is it where the Trans

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Mountain toll potentially could move up or is it just kind of a sharpening the pencil on the competitiveness of the system?

Colin K. Gruending
Executive Vice President & President-Liquids Pipelines, Enbridge, Inc.
A

So, I think our conviction is – I think you're observing that correctly. Our conviction is strengthening in the strength of substantially fully utilized outlook. And I think even at Enbridge Day, I find our point of view tighter on that. But even since then, let's just reflect on what's all happened here.

TMX announced the delay, another delay. And as TMX is delayed, it allows more time for the basin to increase supply, which is good for all points of egress. We understand TMX is likely to have higher tolls with cost increases. We've seen the Keystone incident and subsequent pressure restrictions invoked by PHMSA. It's questionable if or when those will come off.

We've advanced our FSP and EHOT solution. Refinery adds are occurring in the Gulf Coast and Mexico is now going to refine more of their own, creating a bigger bid out of the Gulf for carrying crude. And to add your point, we have a lower toll and rail economics are getting worse. So, I think all of that leads to strengthening conviction in our outlook that the Mainline will be well-utilized and very competitive.

Gregory Lorne Ebel
Chief Executive Officer, President & Director, Enbridge, Inc.
A

Maybe I can just add a comment. I think if you just go back to 100,000 feet and look at the fundamentals of crude oil, PADD II and PADD III are the strongest heavy crude markets in the world. Those refineries are globally competitive and will make very strong crack spread margins. So, there's going to be a strong bid from those refineries forever for Canadian heavy crude. And as Colin mentioned, there's going to be less Mexican crude available and global heavy crude production is declining elsewhere. So, it lines up for very strong fundamentals for us and our customers.

Robert Hope
Analyst, Scotiabank
Q

Appreciate that. And then maybe on another note, just in terms of capital allocation, you've been quite active on, we'll call it, kind of small- to mid-sized M&A. Can you maybe update us on potentially what your pipeline looks on this? And given market conditions, are you seeing opportunities to invest in, we'll call it, small to medium-size assets that given your existing operations you should be able to yield synergies on the revenue and cost side?

Gregory Lorne Ebel
Chief Executive Officer, President & Director, Enbridge, Inc.
A

Yeah. For sure. Look, it starts with having that strong balance sheet, of course. Remember, we've got about CAD 3 billion of capital a year based on our financial position that we can put to work, discretionary. So, beyond just our typical activities and you've seen us do that in the first quarter. We look at everything. As you can imagine, the corporate development group here have a good list of assets that we're interested in. And I would say that covers everything from Gas assets to Liquids assets to even Renewables as well. And as we look at those or if they come to market, we've already got a view on those. And if we can do those accretively and get what we think is a fair multiple, we're going to look at those. And if we haven't got a better alternative, I think we can execute and execute quickly. I think that's a real advantage. Not a lot of folks are in that position.

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The other thing I would say the dynamics have changed and just like it has on the Liquids side to promote greater volumes on our system and what's going on in the Gulf Coast, et cetera. The same is true from an M&A tuck-in perspective. The players that can participate are fewer. Higher interest rates, I would say, are probably most impactful on PE's ability to play and that creates opportunity for us. And – so we're going to be ready on those fronts. If they make sense, we'll do them. And of course it's a classic discussion of build versus buy multiple too. So, we know how challenging it is to build anything these days. If we can buy good existing assets that have both strategic and financial benefits to us, it actually behooves us to kind of play that role sometimes than it does try to build the assets themselves. And if we can't find that stuff, let's remember we've also got the ability and we did a little bit of that in the first quarter to buy back shares. So it really comes down to that full suite of what's the best financial outcome and strategic outcome for us. And we're just fortunate to be in a good position to pull the trigger on any of those.

Robert Hope
Analyst, Scotiabank

Q

Thank you.

Colin K. Gruending
Executive Vice President & President-Liquids Pipelines, Enbridge, Inc.

A

Thank you.

Operator: Your next question is from Praneeth Satish with Wells Fargo. Your line is open.

Praneeth Satish
Analyst, Wells Fargo Securities LLC

Q

Thanks. Maybe if you could just give us a little insight into what the returns are looking like for the potential blue ammonia, the wind projects, I guess especially in light of the higher interest rate environment. There's usually a lot of debt financing on these types of deals. Is it still competitive? Are the returns still competitive with the rest of your backlog?

Gregory Lorne Ebel
Chief Executive Officer, President & Director, Enbridge, Inc.

A

Yeah. Absolutely. I mean look, we're early days still on the blue ammonia project. But I would say we have and the way we structured that remember is 100% offtake, so fitting in the Enbridge model of Utility-like returns. And fortunately we've got a partner there that likes that. I mean they're in the ammonia game day-to-day. So, I would still expect to have a nice double-digit returns there. We'll see how it all shakes out.

And remember that project has, as Colin likes to often say, you've got three or four ways to play. We obviously have the Ingleside of that where the ammonia would be exported from. We've got the carbon capture and sequestration which is our joint venture on that front in that area with the Oxy. And then Cynthia, we would expect would build the gas line into that facility as well. So it's a real opportunity to augment the returns. But, yeah, we're still seeing the same thing.

But, Matt, you might want to speak to offshore and onshore because it definitely depends what market we're talking about there.

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Matthew A. Akman

Executive Vice President-Corporate Strategy & President-Power, Enbridge, Inc.

A

Yeah. Sure. Thanks. It's Matthew. So we did announce the Normandy project. We really like that project. I mean I think it's important to remember that these projects have long-term contracts with fuzzy government counterparties. And if we proceed to FID, they'll include full-wrap EPC so they can be very low risk. So, you don't see blowout returns on these but you'll see strong returns, especially in that risk profile. And of course there's lots of work to do between now and then to FID, and it'll have to earn an Enbridge-style return to achieve that milestone.

The other thing we just like about that is it extends our horizon of visible growth in our commercial model. And Normandy also comes with a potential 1.5-gigawatt extension. So it's kind of one of these projects that has potential organic-type growth associated with it. That will be competitive but obviously we have an inside track for the extension too. So we really like these kinds of projects and we do count [indiscernible] (00:50:57) over our hurdle rates. They all have to in Renewables as well as the other areas.

Gregory Lorne Ebel

Chief Executive Officer, President & Director, Enbridge, Inc.

A

You're seeing good returns on the solar front too, right. I mean those projects continue to proceed and TGE's acquisition is really starting to heat up.

Matthew A. Akman

Executive Vice President-Corporate Strategy & President-Power, Enbridge, Inc.

A

Yeah. We're seeing great prospects as I mentioned at Enbridge Day. We do expect the FIDs later this year on our organic onshore portfolio. We're getting tailwinds just from the quality of those projects we're seeing out of the TGE acquisition and also the tax benefits. That was a pretty aptly time for us too. So we're pretty optimistic on that front as well.

Praneeth Satish

Analyst, Wells Fargo Securities LLC

Q

Thanks. That's helpful. And switching gears, you've done two acquisitions now in recent months of Gas Storage assets. And I think it's clear there's growing value for storage. I guess how do you think about the economics of buying gas storage versus building it organically? Are the market rates high enough to support greenfield expansions of storage or is it still cheaper to acquire storage? How wide is that gap?

Cynthia L. Hansen

Executive Vice President & President-Gas Transmission and Midstream, Enbridge, Inc.

A

Yeah. Thanks for the question. I think we continue to monitor that. So we're excited about the opportunities, as you noted, with storage, with more LNG. As you look out in the next five to 10 years, we see that that value is going to continue to increase. As we've noted, we have the capital discipline and when the opportunities come up in this space for acquisitions, if it meets our investment thresholds, we're going to participate, particularly when it ties into our existing assets like the two we've done so far.

But there we think, in the long run, that there will be opportunities to build out some storage as you look at the economics. But that obviously takes a little bit more time and we'll be very prudent with where it makes sense to build out that storage. And you have to remember that you have to have the right kind of geological formation area to allow you to do that. So as Greg noted earlier, you have to look at the buy versus build scenario and make sure you're positioned well. But I think there'll be opportunities in both spaces.

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Gregory Lorne Ebel
Chief Executive Officer, President & Director, Enbridge, Inc.

A

What I like is we have a huge base on Storage. So sometimes I think people forget we're pushing 300 [ph] Bs (00:53:20) of storage in the Great Lakes region, that becomes increasingly important as well. And then of course the assets that Cynthia and the team just picked up is so critical on the LNG front. But for new storage, you still have to get permitting and we know how challenging is permitting and even in the environment. So again, it goes back to if we can buy it single-digit and earn it at double-digit returns, we're going to do that. That's what we've done in the first quarter.

Praneeth Satish
Analyst, Wells Fargo Securities LLC

Q

Got it. Thank you.

Gregory Lorne Ebel
Chief Executive Officer, President & Director, Enbridge, Inc.

A

Thanks, Praneeth.

Operator: [Operator Instructions] Your next question is from the line of Ben Pham with BMO. Your line is open.

Ben Pham
Analyst, BMO Capital Markets Corp. (Canada)

Q

Okay. Thanks. Good morning. Maybe to start off with growth opportunities. I look at your secured backlog and maybe some of the projects that you've highlighted over the last quarter. It seems like when you head towards the post-2025 timeframe that your capital, your CapEx is going to accelerate dramatically and maybe – well, it look like it's not going to be hard [indiscernible] (00:54:31). How do you think about managing that change in CapEx and are you placing a constraint on CapEx each year? What's the high-level thought process on that?

Gregory Lorne Ebel
Chief Executive Officer, President & Director, Enbridge, Inc.

A

I'll let Vern chime in here. But I'll tell you, from my perspective, it's great. I mean we've got – remember, we've got four really great businesses. They are all big businesses on their own and that creates competition. And each one of the business units is tasked with getting the best risk-adjusted returns possible. So when we sit down as a team and look at it, it's pretty easy. Where are the best returns with the lowest risks and that's where it will go. And so if it means we won't do everything and I think that keeps the business development folks and the execution folks with a very sharp pencil and a keen focus on the future. Of course, every time we continue to build this stuff out, obviously it adds to earnings.

And don't forget, so I guess if we ran up against some of the CAD 6 billion in capacity here, we've done a great job of recycling over the years. So we could do that as well. So I think whether you look at the self-equity financing model just as it is or you look at recycling, look, if the folks bring projects that are accretive to our earnings and our growth, we're going to find a way to do them.

Vern D. Yu
Executive Vice President-Corporate Development, Chief Financial Officer & President-New Energy Technologies, Enbridge, Inc.

A

I think Greg covered most of the points, Ben. The key is our balance sheet. We're in a great position right now. We're at 4.6 times. And as we grow our EBITDA, our balance sheet capacity continues to grow. So, post-2025, if

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we continue to grow at the rate that we're growing at today, well, you can actually have more balance sheet capacity than we do today. And Greg is absolutely right. We continue to recycle capital. Don't forget, since 2018, we've recycled, on an attractive basis, over CAD 11 billion. And we will continue to push forward with more of those opportunities. And I'm hoping we can do more deals like we did with the Athabasca Indigenous group because I think that's a win-win-win scenario for us and our stakeholders.

Ben Pham
Analyst, BMO Capital Markets Corp. (Canada)

Q

Okay. Thanks. And maybe to finish off on the Mainline. The way that you've structured it here the collar, isn't it effectively Utility assets for seven-plus years? And anything you can comment on credit rating agencies, their thoughts on this agreement?

Gregory Lorne Ebel
Chief Executive Officer, President & Director, Enbridge, Inc.

A

Yeah. I think you got it, Ben. I think, as I mentioned earlier, it's the most Utility-like version of an incentive agreement. So, we've got opportunities to outperform and we've got a return floor. So it's essentially the best of both worlds but we're going to hustle hard to serve our customers and perform the best we can.

Vern on the credit rating issue, you want to cover that?

Vern D. Yu
Executive Vice President-Corporate Development, Chief Financial Officer & President-New Energy Technologies, Enbridge, Inc.

A

Yeah. We have currently the lowest business risk profile for major midstream pipeline companies in North America and I think we've, with this deal, even lowered it further. So we're in active regular dialogue with the rating agencies and this is – will be definitely looked upon positively.

Ben Pham
Analyst, BMO Capital Markets Corp. (Canada)

Q

Okay. Great. Thank you.

Operator: Your next question is from the line of Andrew Kuske with Credit Suisse. Your line is open.

Andrew M. Kuske
Analyst, Credit Suisse Securities (Canada), Inc

Q

Thanks. Good morning. If we could come back just to the natural Gas Storage business given some of your acquisition activities and just with the rise of Renewables, maybe a greater call intraday on gas across North America. If you break down your existing asset base, a number of the storage assets are really within rate base construct and then a number of really operational associated pipelines. I guess how much of it is more merchant in orientation and what kind of opportunities do you have on that?

Gregory Lorne Ebel
Chief Executive Officer, President & Director, Enbridge, Inc.

A

Well, maybe I'll start and then Cynthia can jump in. So you're exactly right. I mean we're starting to see some of the needs for the Storage. So, I'm not sure merchant is the right word, so let's leave the Aitken Creek on the side. But remember, our typical contract is around one or two years. So, while we typically contract up our market base storage, it is relatively short-term. There are some longer deals in there. But that's been really positive because

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you've seen – and I think it's going to continue for a while, Storage rates that have gone up 50% to 200% over the last year or so. So that's been really great. And then you're right. A lot of it is in the Utility as well, but there's about 80 Bcf – 65 Bcf to 80 Bcf of Storage there in the Great Lakes region that is market-based. And we've been able to realize, including in this first quarter, good results there.

I don't know Cynthia, do you want to add to that?

Cynthia L. Hansen
Executive Vice President & President-Gas Transmission and Midstream, Enbridge, Inc.

A

Yeah. I mean I'd only add that we've obviously seen some pretty strong opportunities when it comes to pricing. So, as we've seen over the last little while, we're seeing increases on our pricing of 50% to 200% and even some – [ph] pushing the (01:00:06) terms are longer. So that is creating stronger economics. And I would note that we don't have any, what you would call naked exposures in this space. We're always getting that matched, so it does create that balanced exposure in that space as we contract this up.

Andrew M. Kuske
Analyst, Credit Suisse Securities (Canada), Inc

Q

Okay. That's very helpful. And then maybe just an extension. There are some that do have naked exposures in the space. Do you think just the sheer scale of your asset base, so the pipeline grid itself and then the balance sheet it maybe gives you a bigger advantage in taking some opportunities from those who do have the naked exposures should assets come into the marketplace?

Cynthia L. Hansen
Executive Vice President & President-Gas Transmission and Midstream, Enbridge, Inc.

A

Yeah. What I would say, as Greg mentioned earlier, we want to be the first-choice for our customers. So we're always looking at how we can optimize that ability to leverage our full infrastructure. So, ability to leverage our full infrastructure. So, [indiscernible] (01:01:02) assets in particular is great because along with the Storage, we got some really great interconnectivity of pipelines. So, that is how we tie this together in making sure that we're building out for that stable long-term return for us but providing incremental value to our customers as well.

Andrew M. Kuske
Analyst, Credit Suisse Securities (Canada), Inc

Q

Okay. Thank you very much.

Gregory Lorne Ebel
Chief Executive Officer, President & Director, Enbridge, Inc.

A

Thank you.

Operator: Ladies and gentlemen, this concludes the question-and-answer session. I will now turn the call over to Rebecca Morley for final remarks.

Rebecca Morley
Director-Investor Relations, Enbridge, Inc.

Great. Thank you. And we appreciate your ongoing interest in Enbridge. As always, our Investor Relations team is available following the call for any additional questions that you may have. Once again, thank you and have a great day.

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Operator: Ladies and gentlemen, we appreciate your participation. This concludes today's conference. You may now disconnect.

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