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Hawaiian Electric Industries, Inc. (HE)

Q4 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, and thank you for standing by. My name is Tiffany, and I will be your conference operator today. At this time, I would like to welcome everyone to the HEI Fourth Quarter and Full Year 2025 earnings conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

I would now like to turn the call over to Mateo Garcia, Director of Investor Relations. Mateo, please go ahead.

Mateo Garcia

Director-Investor Relations, Hawaiian Electric Industries, Inc.

Thank you. Welcome everyone to HEI's fourth quarter and full year 2025 earnings call. Joining me today are Scott Seu, HEI President and CEO; Scott DeGhetto, HEI Executive Vice President and CFO; Shelee Kimura, Hawaiian Electric President and CEO; and other members of senior management. Our earnings release and our presentation for this call are available in the Investor Relations section of our website.

As a reminder, forward-looking statements will be made on today's call. Factors that could cause actual results to differ materially from expectations can be found in our presentation, our SEC filings and in the Investor Relations section of our website. Today's presentation also includes references to non-GAAP financial measures, including those referred to as core items. You should refer to the information contained in the slides accompanying today's presentation for definitional information and reconciliations of historical non-GAAP measures to the closest GAAP financial measure.

We will take questions from institutional investors at the end of this call. Individual investors and others can reach out to investor relations.

Now, Scott Seu will begin with his remarks.

Scott W.H. Seu

President, Chief Executive Officer & Director, Hawaiian Electric Industries, Inc.

Aloha kākou. Welcome, everyone. For today's call, I'll start with an overview of the important accomplishments we've made over the past year and touch on our priorities going forward. Scott DeGhetto will walk through our financial results and then open it up for questions.

Over the past year, we continue to execute on the priorities we've communicated since the Maui wildfires in 2023, and I'm proud of the progress we've made. We've advanced key initiatives, including progressing the Maui wildfire tort settlement, pursuing legislative measures that support our communities as we deal with the risk of wildfires, implementing wildfire safety improvements that have reduced the risk of ignition from utility equipment, and laying the groundwork for a successful second multi-year rate period under our Performance Based Regulation or PBR framework. Our actions to-date help ensure our ability to serve and invest in our communities for the long-term.

Last quarter, we discussed the process to obtain final court approval of the Maui wildfire tort settlement. We continue to make good progress in resolving the remaining contingencies to payment. In late December, the Maui Circuit Court granted our motion for summary judgment on the subrogation insurers' direct claims. In January, the court granted final approval of the class settlement agreement and provided a good faith settlement determination.

We also received another favorable decision from the Hawaii Supreme Court. As previously disclosed, the subrogation insurers' move to intervene in the class settlement process and the Maui Circuit Court denied this attempt last June. The insurers appealed and the appeal was sent to the Hawaii Supreme Court. On February 10, the court affirmed the lower court's denial of the subrogation insurers' motion to intervene in the class settlement. In doing so, it made clear that a class settlement transforms and insurers subrogation rights into lien rates the same way an individual settlement does, which is what the court ruled on a year ago.

This decision ends the insurers' efforts to derail the class settlement, and because they lack party status in the class action, the insurers should not be able to file a successful appeal to the final approval of the class agreement previously granted by the Maui Circuit Court. This positive result moves us one step closer toward final court approval of the settlement agreements. In sum, we continued to work through the administrative steps required to see the settlement through to completion and trigger our first payment.

We're also pleased that we've been able to finalize settlements, resolving both the shareholder class action and shareholder derivative lawsuits filed in connection with the Maui wildfires. As disclosed, last quarter, in early November, we signed binding term sheets to settle the litigation. In late December and early January, the settlements were finalized and executed. The agreements provide for a complete resolution of both sets of litigation with the company's obligations fully funded by insurance proceeds.

Turning to legislation. As we've discussed over the past few quarters, Hawaii's historic wildfire legislation signed into law last July, acknowledges the need for legislative measures to protect our communities and support the financial stability of the electric utilities in the face of increasingly severe weather events. The PUC's wildfire fund study was completed at the end of December, and this was a crucial first step in implementing our state's milestone legislation.

Work continues to establish a liability cap, with the PUC rulemaking process expected to take 18 months to 24 months. Details around the wildfire fund will be established sometime thereafter. The PUC also approved the

utility's three-year wildfire safety strategy in late December, concluding that the strategy can be expected to reduce wildfire risk and emphasizing the importance of continuous improvement. The utility has achieved many of the operational objectives laid out in the strategy ahead of schedule and will continue rapidly advancing the strategy as we progress through 2026.

We'll be submitting our next update to the PUC in April. We've also continued to make our company stronger and more resilient through carefully managing our balance sheet. Our successful \$500 million utility debt issuance last year as well as our revolver upsize to \$600 million support our financial flexibility and liquidity as we look toward the elevated capital cycle ahead. We also continue to advance our state's clean energy goals, with utility reaching a 37% renewable portfolio standard or RPS in 2025.

We remain on track to meet the 40% by 2030 statutory RPS requirement. Affordability has been a central focus as we've advanced our strategic and operational priorities. Customer bills remain stable in 2025 despite the significant investments we've made in wildfire safety and resilience. The utility continues to offer financial assistance to working families, including providing over \$1 million in payment assistance.

Turning to the next slide. As we look ahead to our objectives for 2026, we'll continue working to resolve the conditions to payment in the tort litigation settlement agreements. We believe we're in the homestretch of this process as the only remaining steps are resolving all outstanding appeals. This includes resolving the appeal the insurers have taken from the judgments entered in our favor, in their direct subrogation actions.

Turning to our ongoing rate rebasing. As discussed on our last earnings call, we are pursuing an alternative process that could allow for resetting rates without the time, cost, and resources typically required for a full rate case proceeding. We see this as an opportunity to develop a rate rebasing proposal in a non-traditional manner consistent with fundamental PBR tenets set forth by the commission and state legislature, encouraging innovation and honoring a stakeholder-driven process.

We plan to submit a joint rebasing proposal with Ulupono Initiative, a PBR Working Group stakeholder party by March 6. We'd also like to address some of the elements that could be improved under a PBR regulatory framework, including our annual inflationary adjustment and performance incentive mechanisms or PIMs. This will happen in the process that the PUC has designated as PBR Phase 6. We expect further guidance from the PUC on a schedule for Phase 6 after the rebasing proposal is submitted.

Affordability remains a central focus as we look ahead toward the commencement of the second multi-year rate period under PBR, especially given the elevated capital investment cycle projected over the next few years. We are pursuing low cost financing options that would reduce impacts to customers from critical investments required for safety and resilience. In the coming months, we'll be submitting a request to finance wildfire safety strategy CapEx and other infrastructure resilience costs via securitization, which is typically the lowest cost of capital available for these types of investments.

In summary, in 2026, we'll continue to execute on our key objectives of advancing the tort settlement and our rate rebasing process while implementing the wildfire risk reduction measures outlined in our wildfire safety strategy. Although much remains to be done, I'm optimistic about the path ahead and proud of what our team has accomplished to-date. Finally, we'll be seeing an executive transition at HEI at the end of the quarter. As previously determined by our board of directors in 2024, Scott DeGhetto's term as HEI CFO expires on April 1, and as a result, Scott will resign effective April 2. Paul Ito, the current Treasurer and CFO of Hawaiian Electric will resume his prior role as HEI CFO, effective April 2, 2026.

Scott joined us as our CFO shortly after the Maui wildfires in 2023, and he's played a crucial role in helping lead our company through the most challenging period we've ever been through. His leadership and expertise have been critical for our success. And I'd like to thank Scott for all that he's done. And even though he'll hand the CFO reins over to Paul, come April, Scott won't be too far as we'll have him support us as our consultant. Again, I thank Scott and I welcome Paul back to his previous role. Scott DeGhetto, I'll now turn the call over to you.

Scott T. DeGhetto

Executive Vice President & Chief Financial Officer, Hawaiian Electric Industries, Inc.

Thank you, Scott, and it's been a pleasure working alongside you and serving this company. Start with our financial results on slide 6. For the full year 2025, we generated net income of \$123.1 million or \$0.71 per share compared to a net loss of approximately \$1.4 billion in 2024. The results includes \$16.5 million of pre-tax Maui wildfire related expenses, net of insurance recoveries and deferrals. Approximately \$12.6 million of that amount was recorded at the utility. Results for the year also include \$12.4 million of losses related to the strategic review of Pacific Current.

Excluding these items, which we referred to as non-core, consolidated core net income was \$149.3 million or \$0.86 per share. This compares to core income from continuing operations of \$124.3 million or \$0.98 per share in 2024. Utility core net income for the year was \$177.5 million, compared to \$180.7 million in 2024. The decrease was driven by higher O&M expenses, primarily due to previously deferred consulting and legal fees, higher interest expense, higher depreciation and the recognition of tax credit benefits in the previous year.

Holding company core net loss was \$28.2 million, compared to \$56.4 million in 2024. The lower core net loss was driven by lower interest expense due to the lower debt balance following the retirement of Holding Company debt in April and higher interest income from cash being held on the balance sheet to make the first settlement payment. Turning to the next slide. As of the end of the fourth quarter, the holding company and the Utility had approximately \$16 million and \$486 million of unrestricted cash on hand, respectively.

In addition, the holding company has approximate \$530 million in combined liquidity available under its ATM program and credit facility capacity. The Utility also has approximately \$540 million of liquidity available under its accounts receivable facility and credit facility capacity. Consistent with last quarter, Hawaiian Electric's board of directors approved a \$10 million quarterly dividend to HEI for the fourth quarter of 2025. There have been no changes to our settlement financing plan since what we communicated last quarter.

We still expect to fund the second settlement payment with debt and/or convertible debt and expect that payments thereafter will be funded with a mix of debt and equity depending on market conditions. As Scott Seu mentioned, outstanding appeals must be resolved before we can make our first \$479 million settlement payment, which we now expect to make in the second half of 2026.

Turning to the next slide. We still expect 2026 CapEx of \$550 million to \$700 million in 2027 and 2028 CapEx to increase further to \$600 million to \$800 million and \$600 to \$850 million, respectively. This level of spend is consistent with our expectations communicated last quarter and is subject to additional PUC approvals and further resource adequacy initiatives and analysis.

At that, let's open up the call to questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Michael Lonegan with Barclays. Please go ahead.

Michael Lonegan

Analyst, Barclays Capital, Inc.

Q

Hi. Thanks for taking my question. Just wondering, if you could talk about the latest appeal by the insurers. What do you see as the chances the Hawaii Supreme Court takes up the case or do you think it's possible that they deny to hear the appeal based on some of the language from the prior appeals and prior cases with the Supreme Court?

Scott W.H. Seu

President, Chief Executive Officer & Director, Hawaiian Electric Industries, Inc.

A

Yeah. Hi, Mike. This is Scott. Thanks for the question. Yeah. So, the only remaining item here is that appeal, the subro's appeal of the earlier summary judgment, which dismissed their claims, their direct claims against the defendants. There's been no briefing scheduled yet on this appeal that was just filed at – in January. I do think that, ultimately, of course, I don't want to get ahead of our Hawaii Supreme Court. But essentially, this is the last – the last step and all decisions by the Circuit Court and the state Supreme Court have been very supportive of the settlements. Again, I won't speculate or speak for the Supreme Court, but, I'm – maybe I'll just stop my comments there.

Michael Lonegan

Analyst, Barclays Capital, Inc.

Q

Okay. Thank you. And then on financing the second settlement payment, what are your latest thoughts on, a preference between debt or convertible debt or combination thereof? And do you think you'll wait until after the settlement is approved to do this financing or is it something we could see like with the first settlement capital raise where you did that already with equity?

Scott T. DeGhetto

Executive Vice President & Chief Financial Officer, Hawaiian Electric Industries, Inc.

A

Hey, Mike. It's Scott DeGhetto. So, no change in plans from what we've been saying over the past several quarters. It will be a re-levering at HEI, either through debt or convertible debt. Right now, based upon market conditions, I would say we're leaning more towards convertible debt and doing it all as convertible debt, but that certainly can change as we go forward. And then in terms of the timing of that payment, we don't anticipate doing anything until after the settlement is approved.

As you know, that first payment was raised a while ago. It's being held in escrow. And then once the settlement is approved, we have 30 days to make that payment. And so, then we would look once that payment is made. We'll continue to look at the markets and determine at the appropriate time when we would raise that money. I don't think it'll be, a year in advance like we did the last one, but you just never know. It depends on where the market is at that particular time.

Michael Lonigan

Analyst, Barclays Capital, Inc.

Q

Great. And then you talked about financing your capital program, with the prior debt issuance and then also retained earnings, a good portion of it. With the remaining amount, do you expect to use your \$250 million ATM program? How much of that and what could be the cadence of issuances of that, if you were to use that?

Scott T. DeGhetto

Executive Vice President & Chief Financial Officer, Hawaiian Electric Industries, Inc.

A

So, in terms let me hit the ATM program first, and then I'll kick it to Paul Ito to talk a little bit more about financing down at the Utility and his thoughts on that. But in terms of the ATM, the ATMs out there, we have the ability to use it. Again, we'll be opportunistic in use of that. We may use it. We may not. It just, again, depends on market conditions, but that's always an option for us.

Michael Lonigan

Analyst, Barclays Capital, Inc.

Q

And then lastly from me, American Savings Bank, you talked about selling the remaining, roughly 10% stake of that. Is that assumed in your financing plan or how should we think about the timing of that potential sale?

Scott T. DeGhetto

Executive Vice President & Chief Financial Officer, Hawaiian Electric Industries, Inc.

A

So, we still intend to divest that remaining 9.9% in calendar year 2026. Again, just depends on market conditions, how the bank is doing, et cetera. So, we continue to look at that regularly and again, we do have plans to divest that this year.

Michael Lonigan

Analyst, Barclays Capital, Inc.

Q

Great. Thanks for taking my question.

Operator: Your next question comes from the line of James Ward with Jefferies. Please go ahead.

Jamieson Ward

Analyst, Jefferies LLC

Q

Hi, guys. Congratulations, Paul and Scott, wishing you all the best.

Scott T. DeGhetto

Executive Vice President & Chief Financial Officer, Hawaiian Electric Industries, Inc.

A

Thank you.

Jamieson Ward

Analyst, Jefferies LLC

Q

In terms of the PBR rebasing, what should we think about in terms of what's actually in that upcoming March 6th joint proposal? Like you still consider a high level, the two to three most material elements maybe target revenue methodology, PIM redesign and I have a follow up on that, et cetera. How should we be thinking about what's in there?

Scott W.H. Seu

President, Chief Executive Officer & Director, Hawaiian Electric Industries, Inc.

A

James, I think we've described the high level elements of what we're trying to work through, including the inflationary adjustment factor, having a true up mechanism as opposed to the current structure, looking at the PIMs and making sure the PIMs are nice and tight in terms of our ability to actually influence outcomes as well as also the potential return from those PIMs if we show that we have truly, truly performed well, there. We've also mentioned in the past looking at expanding the scope of EPRM, the Exceptional Project Recovery Mechanism. So, those are the key elements, I'd say.

Jamieson Ward

Analyst, Jefferies LLC

Q

Okay. Got you. I have a follow-up on the PIM. But just first in terms of like rebasing outcome, for risk, [indiscernible] (00:21:52) described this as the final extension and one of the specific triggers that we should think about in terms of what would cause you to pivot back to a traditional 2027 test year rate case as second half 2026. Like, how are you managing the risk of that January 2027 new rate states slipping?

Scott W.H. Seu

President, Chief Executive Officer & Director, Hawaiian Electric Industries, Inc.

A

James, let me hand it over to Joe Viola at the Utility. He is our Senior Vice President overseeing our regulatory affairs.

Joseph P. Viola

Senior Vice President-Customer, Legal and Regulatory Affairs, Hawaiian Electric Company, Inc.

A

Yes, hello. The March 6th date is when we'll be submitting the rebasing proposal with one of the PBR stakeholders Ulupono as Scott had mentioned. The commission after that will just take a look. We figure in about 30 days they'll make sure that everything as a formal matter, is administratively in there, that they expect, and then give us an order to proceed with the rest of the process. We'll make – the only thing that would cause us to pivot to a 2027 test year rate case is if that rate rebasing [ph] proposal (00:22:53) were denied.

Jamieson Ward

Analyst, Jefferies LLC

Q

Got it. Okay. Thank you for that. That's very helpful. On the PIM redesign, we actually hosted the call recently. We posted a number of the past year. Hawaii focused former regulators, other people, attached to political process and so on. And they were as clear as clear could be, which I'm sure you guys already would be aligned with and happy to hear. But reiterating 150 basis points to 200 basis points of incremental earnings power above your authorized ROE was the original intention for the PIMs and that's coming from on high.

With that in mind and given how the initial ones were often designed were things that were outside of your control, unfortunately, and also the imbalances in terms of asymmetry, in terms of downside and upside. What – on the PIM redesign, what does a more meaningful package look like to you guys in practice? Like what would the top two or three PIM changes be that you're pursuing and how should we think about that symmetry in terms of upside versus downside? Thanks.

Joseph P. Viola

Senior Vice President-Customer, Legal and Regulatory Affairs, Hawaiian Electric Company, Inc.

A

Hi. This is Joe again. I think in terms of the ultimate reward opportunity, we think we believe that the commission should eventually take what they said in the past, the 150 basis points to 200 basis points and we'll support that. We think there's other support for that as well. In terms of what we want to see going forward, we've learned a lot living under the first five years of PBR. So, when we've seen more meaningful package, we want to make sure that the targets are reasonably set and the means to achieve them are reasonably within our control. That's the important part. We're going to look, going forward, as Scott mentioned, we'll be discussing with the specific topics and specific priorities would be for those incentives. But it's, to us it's the design. Make sure that we can achieve them. That's our main goal.

Scott W.H. Seu

President, Chief Executive Officer & Director, Hawaiian Electric Industries, Inc.

A

Yeah. The only thing I'd add, James, is we're also interested to see if we can actually reduce the total number of PIMs, because that has been a bit of a challenge over the last few years, managing a long list of PIMs.

Jamieson Ward

Analyst, Jefferies LLC

Q

Got it. Thank you both very much. That's very helpful. Last question I have is the wildfire [indiscernible] (00:25:03) here legislation passed. So, you're now guiding the 18 months to 24 months for the liability cap process for the wildfire fund thereafter. We obviously saw the PUC's report at the end of the year to the legislature. So, bring it back 18 months to 24 months back to 2026, what are the 2026 milestones that we should be watching for liability cap, wildfire funds, securitization? It sounds like wildfire fund might not be on there. I'll leave it there open, but I think that's what the other part of people would like to know.

Scott W.H. Seu

President, Chief Executive Officer & Director, Hawaiian Electric Industries, Inc.

A

Yeah. James, so as you noted, right, at the end of last year, the PUC filed their report on the fund, the potential for a fund. And in that, they indicated that it should actually be taken up after the PUC rulemaking process for a limitation of liability happens, which the PUC has indicated that, that would be the 18 month to 24 month period beginning – roughly the beginning of this year. So, as far as critical milestones, I mean, a state agency rulemaking process 18 months to 24 months, it will involve a lot of information gathering, data gathering, and eventually they would file a proposed set of rules for comments and review, and then they would go back and take those into account and issue the final.

Once the final rulemaking is proposed, there is a certain period of time for the governor to actually be able to weigh in with his own comments. And at that point, once that is resolved, then the rule becomes final. So, those are the high level steps in a rulemaking process. As far as other critical milestones this year, it's really all on that PUC rulemaking process, and I think I would also say there is nothing that would be teed up, for example, in front of the legislature this year.

Jamieson Ward

Analyst, Jefferies LLC

Q

Got it. Okay. Thank you very much. I appreciate it and see you next week at the conference.

Scott W.H. Seu

President, Chief Executive Officer & Director, Hawaiian Electric Industries, Inc.

A

Thanks, James.

Operator: That concludes our question-and-answer session. I will now turn the call back over to Scott Seu for closing remarks.

Scott W.H. Seu

President, Chief Executive Officer & Director, Hawaiian Electric Industries, Inc.

I just want to close by saying again to all of our investors and interested stakeholders, thank you for your support. 2025, like I said, was a year where we felt we really were able to make a lot of progress in terms of advancing our key initiatives. I also want to one more time just thank Scott DeGhetto for his service as HEI CFO coming to us shortly after the Maui wildfires in 2023. And Paul Ito, I welcome you back to our team at HEI.

So, with that, thank you very much.

Operator: Ladies and gentlemen, this concludes today's call. Thank you all for joining. You may now disconnect.

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