06-Nov-2026

Hawaiian Electric Industries, Inc. (HE)

Q3 2026 Earnings Call

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CORPORATE PARTICIPANTS

Mateo Garcia
Director-Investor Relations, Hawaiian Electric Industries, Inc.

Scott W.H. Seu
President, Chief Executive Officer & Director, Hawaiian Electric Industries, Inc.

Paul K. Ito
Chief Financial Officer & Senior Vice President, Hawaiian Electric Industries, Inc.

OTHER PARTICIPANTS

Michael Lonegan
Analyst, Barclays Capital, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Thank you for joining us, and welcome to HEI's Third Quarter 2026 Earnings Conference Call. After today's prepared remarks, we will host a question-and-answer session. [Operator Instructions]

I will now hand the conference over to Mateo Garcia, Director of Investor Relations. Sir, please go ahead.

Mateo Garcia

Director-Investor Relations, Hawaiian Electric Industries, Inc.

Thank you. Welcome, everyone, to HEI's third quarter 2026 earnings call. Joining me today are our CEO, Scott Seu; our President, Shelee Kimura; our Senior Vice President and CFO, Paul Ito; 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.

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Aloha kākou. Welcome, everyone. For today's call, I'll start with updates on key strategic priorities and regulatory processes. Paul Ito will walk through the quarter's results and discuss the financial implications of pending regulatory requests.

Throughout this year, we've continued to make measurable progress across the key objectives that we've communicated since the Maui wildfires of 2023. We told you that we would take the actions necessary to improve the financial strength of our enterprise and ensure our ability to serve and invest in our communities for the long term. Over the past three years, we've done this by improving our financial and operational risk profile, resulting in upgrades in both HEI and Hawaiian Electric's ratings from all three agencies.

Our liquidity today is more than five times what it was just after the wildfires and more than twice what it was just before the wildfires, giving us significant optionality as we look ahead toward making the remaining payments stipulated under the historic settlement agreement that was upheld by the Hawaii Supreme Court earlier this year. We've also restored our access to capital, completing successful debt and equity offerings at the operating company level and holding company level, respectively.

We've achieved substantial milestones in implementing our wildfire mitigation plan, resulting in significantly lower risk of utility-caused ignitions across our system. The effectiveness of our efforts has not only been recognized by the rating agencies, but by our insurance providers as well. Our insurers have recognized us as among the best-in-class with respect to wildfire risk mitigation. And as a result, our price per million for commercial wildfire premiums has declined 52% since the Maui wildfires.

We're also implementing our wildfire mitigation plan at the least cost to customers, with securitization plan to cover up to $500 million in wildfire mitigation program costs and other resilient spending. With the divestitures of American Savings Bank and the Pacific current businesses, we're moving ahead with a more streamlined and simpler business solely focused on a regulated electric utility. After consistently achieving aggressive strategic milestones to-date under challenging circumstances, we're well-positioned for strong execution of our strategies, ensuring that we can continue to strengthen the financial position of the company, while serving our communities with safe, affordable, reliable, and resilient electricity.

Turning to the next slide, we continue to advance strategic priorities during the third quarter. Our islands experienced elevated storm activity in August and September, and I'm proud of the strong performance of our crews in quickly restoring power following severe weather and damage to our system. Hurricane Lala caused extensive statewide damage as it passed through the southern portion of the island chain in mid-August, causing hurricane force winds across the state.

At their peak, outages impacted over 40% of customer accounts across our service territories. However, our crews made rapid progress restoring service under challenging weather conditions, with more than 95% of affected customers restored within three days of the storm's passing. Hurricane Lowell passed by our service territories in early September, with limited impacts to our system. Our crews provided assistance to Kauai Island Utility Cooperative to restore power on the Island of Kauai, which experienced severe impacts. In September, Hurricane Nolo had only minor impacts in our service territory, with a handful of outages that our crews quickly addressed. Most customers power was restored within hours.

Our ability to quickly restore customers in the face of very challenging weather conditions is a result of the hard work of Hawaiian Electric crews and our effective execution, implementing resiliency measures. The significant resources invested in resilience as we've implemented our wildfire mitigation plan proved beneficial in the face of these severe weather events. For example, measures already implemented in high wildfire risk areas such as

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pole upgrades and enhanced vegetation trimming have resulted in fewer pole failures during extreme weather events.

We continue to prioritize safety in everything we do, and we've implemented industry-wide best practices, adopting proven measures used by wildfire-affected utilities on the mainland, but tailored to our very different risk profile. Hawaii's wildfire risk differs significantly from that of California or other wildfire-prone western states, where large-scale wildfires are regular occurrence, often numerous times a year.

We continue to implement industry best practices to strengthen safety and reduce risk of utility equipment involvement in an ignition. Wildfire risk reduction has also become a statewide collaborative effort involving many dedicated parties beyond the state's utilities. Government agencies, first responders, landowners, non-profits, and others are engaged in dedicated efforts and have increased funding and other resources to reduce the risk of ignition, spread, and impact of wildfires.

Along with safety, reliability, and resilience, affordability remains a priority in everything we do. Our pending rate rebasing request reflects that balance. We've proposed a 5.3% base rate increase phased in over two years. That is in line with projected inflation, while supporting the continued investments needed for a safe, reliable and resilient grid. We're mindful of the cost pressures our customers face, especially our low-income customers in the current high price environment.

That's also why we recently sought PUC approval of up to $500 million in wildfire safety and resilience investments using securitization, which was authorized by Hawaii's legislature and signed into law by Governor Green last year. The structure is designed to lower the cost to customers while advancing public safety.

Our work to consistently deliver for our customers has not gone unrecognized, and we've seen consistent improvement in customer satisfaction over the past three years. We were pleased to see that customer satisfaction scores during the quarter remained well above industry averages, with customer satisfaction in the 86th percentile of over 100 utilities surveyed.

Turning to the next slide, our rate rebasing continues to progress and over the past few months, public hearings have been held on all islands we serve. We're awaiting a final PUC procedural schedule, which will give us a better sense of the next significant milestone dates and when new rates might take effect. In the meantime, the review process to consider PBR framework changes for the next five years is progressing toward conclusion. In October, the PUC issued guidance for what is called PBR Phase 6, including a staff proposal to narrow focus for the remaining steps in this process.

The staff proposal is largely aligned with our own positions on PBR modifications. The collaboration and discussions among the PBR stakeholder parties to this point should facilitate a PUC decision on final PBR framework changes in the near future, although no timeline for such a decision has been set thus far. We'll be filing our comments on the PUC staff's proposal no later than November 13. The PUC has laid out high-level procedural steps following the reply comments, with the next major milestone being the commission's inclinations expected to be published in early January.

In summary, our key PBR-related regulatory processes are advancing, and we expect more clarity on the exact timing for conclusion of the rate rebasing and phase 6 in the near term. We continue to execute on our operational priorities, maintaining our focus on affordability while delivering the safe, reliable, and resilient electricity our customers deserve.

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I'll now turn the call over to Paul to discuss our financial results.

Paul K. Ito

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

Thank you, Scott. I'll start with our financial results on slide 6. For the third quarter of 2026, we generated GAAP net income of $35.5 million or $0.20 per share, compared to $30.7 million or $0.18 per share a year ago. The results include the impacts of several items we consider non-core. American Savings Bank completed an initial public offering in September. And as part of the transaction, HEI sold 35% of its 9.9% stake, realizing net proceeds of approximately $33.9 million and a pre-tax gain of $18.3 million.

HEI also recognized a non-cash unrealized gain of $45.9 million on its remaining stake in the bank, reflecting its market value at quarter-end. In total, the realized and unrealized gains were approximately $64 million pre-tax. We also recorded a non-cash pre-tax asset impairment of $50.7 million at Pacific Current related to its last remaining operating asset, the Mahipapa biomass generating facility on Kauai.

In September, the proposed sale of Mahipapa to an unaffiliated third party was terminated because the parties could not resolve certain obligations needed to close the sale. Mahipapa's facility has been offline since early September following damage from Hurricane Lowell and its power purchase agreement with Kauai Island Utility Cooperative or KIUC ended on October 1.

Mahipapa filed for Chapter 7 liquidation on November 3. Once the proceeding is completed, there will be no remaining operations under Pacific Current. We've worked to minimize the impacts of the shutdown on stakeholders, including Mahipapa employees, KIUC, and creditors. The impairment reduced the plant assets to their estimated net salvage value.

Similar to last quarter, utility interest expense includes approximately $18 million of non-cash accretion expense on the wildfire settlement liability. As a reminder, we discounted the remaining settlement payments to present value last quarter. Accretion increases that recorded liability as the payment dates approach. It does not increase the agreed settlement payments.

Excluding ASB investment gains, the Pacific Current impairment and Maui wildfire-related items, consolidated core net income and EPS were $23 million and $0.13, down from $32.8 million and $0.19 in the third quarter of 2025. The decline primarily reflects storm-related expenses at the utility, which remain included in both GAAP and core results.

At the utility, GAAP net income was $13.5 million, compared to $37 million a year ago. Utility core net income for the quarter was $27.6 million, compared to $39.6 million in 2025. The decrease in utility core net income primarily reflects higher O&M expenses. The higher utility O&M was driven by $13.7 million of estimated incremental pre-tax storm costs related to hurricanes in August and September and approximately $5.6 million of expenses previously recorded at the holding company, but now recorded at the utility.

This transfer started in the third quarter and reflects the integration of holding company functions and employees into the utility as we simplify the business. These ongoing expenses are now recorded at the utility, but the transfer itself did not increase consolidated expenses. The costs that remain at the holding company will primarily consist of interest expense on holding company debt and holding company expenses that are unrelated to utility operations.

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In October, we filed for deferral of the storm-related expenses and have requested a PUC decision no later than December 15, 2026. If approved and the applicable accounting criteria are met, we would reverse the qualifying expenses in our fourth quarter financials. Our request covers incremental, prudently incurred storm costs. We'll then file for recovery in a separate request to the PUC in 2027 under our Z-factor recovery mechanism.

We believe the storm costs meet the required criteria specified for recovery under the Z-factor because the costs were prudently incurred, incremental, and related to exogenous events outside the control of the utility. Approval to defer the costs would not by itself constitute approval of recovery.

Holding company core net loss for the quarter was $4.6 million, compared to $6.8 million in the third quarter of 2025. The lower core net loss was primarily driven by the holding company expenses that are now being recorded at the utility, partially offset by lower interest income due to a lower cash balance following the first settlement payment made in April of this year.

Turning to the next slide. As of the end of the third quarter, on a consolidated basis, total liquidity was approximately $1.3 billion. This includes $224 million of unrestricted cash on hand and approximately $1.1 billion of liquidity available under HEI's ATM program, HEI's and the utility's credit facility capacity, and the utilities accounts receivable facility.

We continue to believe that we are well-positioned to meet increased working capital requirements due to higher fuel prices, as well as financing needs related to utility CapEx. Consistent with last quarter, we have not seen a meaningful increase in bad debt expense or write-offs this year, and bad debt expense is actually lower than it was at this time last year, while net write-offs have been relatively flat.

Turning to the next slide. As Scott mentioned, our rate rebasing request is being reviewed by the PUC. The PUC'S tentative procedural schedule contemplates a final decision in order in mid to late April 2027. This could allow for new rates to take effect by early May. Under this illustrative scenario and assuming our full rate rebasing requests were granted, we would see $83 million of additional revenue from the rate rebasing in 2027, which is eight months of the full-year run rate of $125 million.

Under this scenario for a partial year of new rates, the utility would manage to a core return on equity of approximately 7.3% to 7.8%. That is equivalent to approximately 8.3% to 8.8% under a full year of new rates, reflecting the full $125 million base rate increase. The partial year and full-year ROE scenarios do not include the potential impacts from new performance incentive mechanisms or other changes to the PBR framework that are being considered under phase 6 of the PBR proceeding.

These scenarios are illustrative, and the timing and outcome of the PUC's decision remain uncertain. If the PUC approves the PIMs package proposed by the company in the phase 6 PBR proceeding, the potential upside of up to 150 basis points of ROE and PIMs would be approximately $33 million. The potential downside from up to 50 basis points of ROE and PIM penalties would be approximately $11 million.

Turning next to our financing plans, our strong quarter-end liquidity provides significant flexibility as we look ahead toward funding our CapEx and the remaining wildfire settlement payments. We have already prepaid $80 million toward the second settlement payment, reducing the $479 million amount due by $82 million after reflecting the early payment discount. In addition, we expect to prepay at least another $100 million before the April 2027 due date, using proceeds from the potential sale of our remaining shares of ASB and expected insurance proceeds. If completed, as expected, these prepayments would reduce the amount remaining due in April to below $300 million.

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We still expect to finance the remainder of the second payment with straight debt or convertible debt. We have a variety of financing options available and with strong liquidity, we have flexibility on timing as market conditions evolve. We also have the option to make some or all of the remaining settlement payments early, with a discount applied based on an annualized rate of 5.5%. We will continue to evaluate additional pre-payments against our financing costs and liquidity needs.

Our financing strategy will focus on minimizing shareholder dilution, while building toward investment-grade credit metrics over the long term. We believe achieving those metrics, together with the implementation of the wildfire protections contemplated by Act 258 and completion of the remaining settlement payments would provide a credible path back to investment grade. The timing and outcome of any rating actions remain at the discretion of the rating agencies. As our financial position strengthens, our board of directors may revisit our dividend policy with the longer-term objective of reaching a payout ratio consistent with peer utilities.

We'll now open up the call for questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from Michael Lonegan with Barclays. Please go ahead.

Michael Lonegan
Analyst, Barclays Capital, Inc.

Q

You talked about the early payment approach for the wildfire liabilities, and I was just wondering if you could share if you're leaning more towards for the remaining amount, more towards debt or convertible debt? And is this something we could expect in the near term or closer to the April due date for the payment?

Paul K. Ito
Chief Financial Officer & Senior Vice President, Hawaiian Electric Industries, Inc.

A

Hey, Mike, this is Paul. So, just to clarify, you're asking about the second settlement payment that's coming up specifically?

Michael Lonegan
Analyst, Barclays Capital, Inc.

Q

Yeah.

Paul K. Ito
Chief Financial Officer & Senior Vice President, Hawaiian Electric Industries, Inc.

A

Okay. Yeah, so let me just start where we're at and what our plans is as we get to the April settlement payment date. So, as said on the call, we've already prepaid $80 million at a discount and so that reduces the remaining amount to about $400 million. We expect to obtain additional proceeds to do a prepayment from our remaining ASB stake, and we also expect additional insurance proceeds. And so, roughly speaking, that's a little bit over $100 million, and that would allow us to prepay to further reduce the amount to $300 million or slightly less.

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In terms of the remaining $300 million and how we would finance that, our plans remain consistent with what we said before. It'll be debt or convertible debt. We're looking at both. Obviously, we're watching market conditions, and we're going to look at the trade-offs between the two and then make a decision at the appropriate moment. But that's our current plan.

Michael Lonegan
Analyst, Barclays Capital, Inc.

Q

Thank you. And then, I was wondering if you could talk about the status of the liability cap process, when we could expect updates on that, and could this potentially go through in the next legislative session in 2027?

Scott W.H. Seu
President, Chief Executive Officer & Director, Hawaiian Electric Industries, Inc.

A

Yeah. Hi, Mike. This is Scott. So, the process is still being overseen by the Public Utilities Commission. This is a formal rulemaking process. They are in the midst of that. They have spent time seeking inputs from various stakeholders, including our company, and that's where it sits. The next step is really up to the PUC in terms of when would they be able to issue a set of draft rules for consideration. But obviously, that would be sometime in 2027.

Michael Lonegan
Analyst, Barclays Capital, Inc.

Q

Okay, thank you. And then, lastly from me, there are some tweaks to the 2027 and 2028 capital program. I was just wondering if you could walk us through what changed there. And then, also, you've said the majority of your capital program will be funded with prior debt issuances and cash flow. Do you expect to use your ATM much as well?

Paul K. Ito
Chief Financial Officer & Senior Vice President, Hawaiian Electric Industries, Inc.

A

Yeah. So, maybe I'll start with the ATM. Currently, based on where our stock price is, there's no plans to utilize that. As mentioned, currently, we don't pay a dividend, and so we would expect to fund largely our CapEx program through internally generated earnings, but also supplement that with debt.

In terms of changes to the CapEx program, I don't believe there was a significant change. Sometimes there's a shifting of EPRM timing of the capital, but generally, it remains largely consistent, I believe, this last quarter.

Michael Lonegan
Analyst, Barclays Capital, Inc.

Q

Great. Thanks for taking my question.

Scott W.H. Seu
President, Chief Executive Officer & Director, Hawaiian Electric Industries, Inc.

A

Thanks, Mike.

Operator: There are no further questions at this time. I will now turn the call back to Scott Seu for closing remarks.

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Scott W.H. Seu

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

Thank you. In summary, we continue to make good progress building on our record of strong execution. Our entire team is dedicated to best serving our customers, our community, and our shareholders. I'm happy to end this call by welcoming our newest board member, Peter Ho, to our HEI and Hawaiian Electric 'Ohana. Peter recently retired as Chairman and CEO of the Bank of Hawaii, a position he held for 16 years. He brings a wealth of knowledge and experience in finance, customer service, the Hawaii community, and public company in leadership to our board and I look forward to working with him. Mahalo for attending our earnings call today. Take care.

Operator: This concludes today's call. Thank you for attending. You may now disconnect.

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