

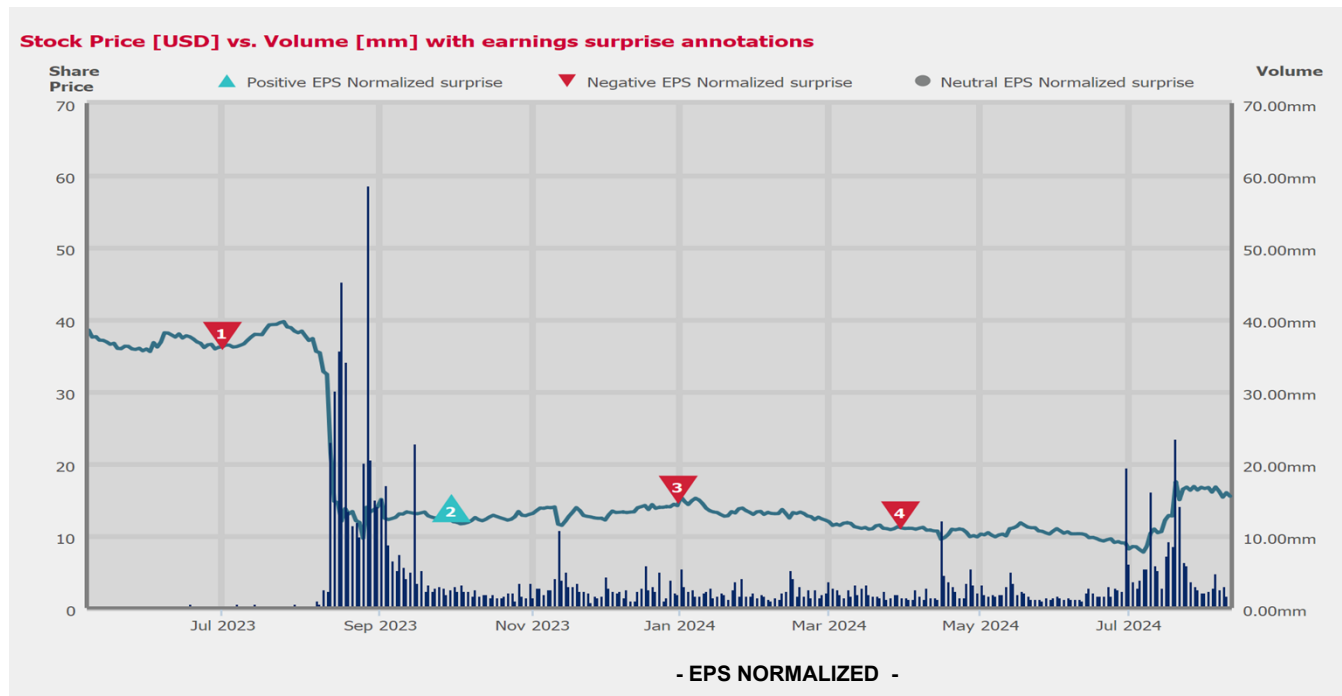
Hawaiian Electric Industries, Inc. NYSE:HE

FQ2 2024 Earnings Call Transcripts

Friday, August 9, 2024 8:30 PM GMT
S&P Global Market Intelligence Estimates

| | -FQ1 2024- | | | -FQ2 2024- | -FY 2024- | -FY 2025- |
|----------------|------------|--------|----------|------------|-----------|-----------|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | CONSENSUS |
| EPS Normalized | 0.54 | NA | NA | 0.49 | 1.83 | NA |
| Revenue (mm) | NA | NA | NA | NA | 3660.90 | NA |

Currency: USD
Consensus as of Aug-04-2024 9:59 PM GMT



| | CONSENSUS | ACTUAL | SURPRISE |
|----------|-----------|--------|--------------------------|
| FQ2 2023 | 0.55 | 0.50 | ▼ ¹ (9.09 %) |
| FQ3 2023 | 0.54 | 0.56 | ▲ ² 3.70 % |
| FQ4 2023 | 0.49 | 0.48 | ▼ ³ (2.04 %) |
| FQ1 2024 | 0.54 | 0.38 | ▼ ⁴ (29.63 %) |

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Call Participants

EXECUTIVES

Mateo Garcia

Director of Investor Relations

Paul K. Ito

Senior VP, CFO & Treasurer

Scott T. DeGhetto

Executive VP, CFO & Treasurer

Scott W. H. Seu

President, CEO & Director

ANALYSTS

Jonathan Garrett Reeder

*Wells Fargo Securities, LLC, Research
Division*

Michael B. Lonigan

*Evercore ISI Institutional Equities,
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Presentation

Operator

Good afternoon. My name is Audra, and I will be your conference operator today. At this time, I would like to welcome everyone to the Q2 2024 Hawaiian Electric Industries, Inc. Earnings Conference Call.

Today's conference is being recorded. [Operator Instructions]

At this time, I would like to turn the conference over to Mateo Garcia, Director, Investor Relations. Please go ahead.

Mateo Garcia

Director of Investor Relations

Thank you. Welcome, everyone, to HEI's Second Quarter 2024 Earnings Call. Joining me today are Scott Seu, HEI President and CEO; Scott DeGhetto, HEI Executive Vice President, CFO and Treasurer; Shelee Kimura, Hawaiian Electric President and CEO; and Ann Teranishi, American Savings Bank 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. 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.

Now Scott Seu will begin with his remarks.

Scott W. H. Seu

President, CEO & Director

Aloha kakou. Welcome, everyone. For today's call, I'll start with key updates regarding the Maui wildfires and the proposed settlement announced last week. I'll then touch on operational progress we've made at the utility in our ongoing efforts to mitigate risk and enhance reliability. And finally, I'll discuss American Savings Bank's results and comment briefly on HEI's review of strategic options for ASB. I'll then turn it over to Scott DeGhetto, who will walk through our second quarter financial results in more detail and discuss the financial implications of recent announcements before we open it up for questions.

Yesterday marked 1 year since the wildfires on Maui forever altered the lives of so many of Maui's and Hawaii's residents. We know that for many, the pain of loss is as fresh today as it was over a year ago. Our hearts remain with our friends, families, neighbors and employees, we suffered so much in the wake of last year's wildfires. It's been heartening for all of us here in Hawaii to see the many ways our community has come together to support the people of Lahaina and Upcountry Maui and to help chart a pathway forward.

Last week, we saw an important milestone in those efforts. Following 4 months of mediation efforts, HEI, Hawaiian Electric and other parties reached a settlement agreement in principle to offer those who suffered loss an accelerated path to recovery. I'm thankful for the governor's leadership in helping to expedite the agreement and keeping all of us focused on working together to do what is best for Maui and Hawaii.

For HEI, the settlement provides a clearer line of sight toward resolution of the wildfire-related tort litigation and increased certainty for our company's path ahead. Under the terms of the proposed settlement, the defendants have agreed to collectively pay over \$4 billion to those who were harmed in last year's fires on Maui to settle all tort claims. HEI and Hawaiian Electric's contribution is a total of \$1.99 billion pretax and includes the \$75 million we previously contributed to the One 'Ohana initiative. The settlement amount would be paid annually in 4 equal installments.

As a result of the proposed settlement, we recorded a \$1.71 billion pretax loss for the quarter, which Scott DeGhetto will discuss in more detail. At this point, the proposed settlement is an agreement in principle between the defendants and attorneys representing individual and class plaintiffs and would resolve over 600 lawsuits, which named both HEI and Hawaiian Electric as defendants. The settlement would also resolve all claims among the defendants.

The agreement is conditioned on the resolution of the claims of the insurance companies that have paid claims for property loss and other damages with no additional payments from defendants. Subrogation claims have been filed from about 160 different insurers with exposure on Maui. A hearing is scheduled for August 13 to obtain a court order limiting the insurer's recovery to the already agreed upon settlement amounts.

Once the final settlement agreement is signed, it will take effect following judicial review and approval. The payments would begin after such approval and are expected to commence no earlier than mid-2025. Scott DeGhetto will discuss the financial implications of the settlement and the work underway to develop a financing plan. Following the filing of a settlement agreement in principle with the Second Circuit court, all trial dates for the Maui wildfire tort related claims were vacated, meaning there are currently no trial dates pending in any of the tort related lawsuits.

With greater certainty for our path forward, our enterprise will be better positioned to invest in a sustainable and resilient future for Maui and all of Hawaii. That includes advancing the utilities wildfire safety strategy and strengthening Hawaii's infrastructure to ensure the resilience and reliability of the grid. On our last earnings call, we noted that the utility was implementing enhanced wildfire operational strategies and practices, including a Public Safety Power Shutoff program or PSPS, as a last line of defense.

The utility officially launched the PSPS program on July 1, and this means that power can now be preemptively shut off in certain areas identified as high risk during periods of high winds and dry conditions. The utility intends to continue coordinating closely with public agencies, first responders, community organizations and customers to refine and enhance this new program to make it more targeted and effective going forward.

While PSPS is an important tool to help keep our communities safe, we're also advancing a broader program of wildfire mitigation work to enhance resilience. Over 35% of the utilities capital budget this year, nearly \$120 million is dedicated to these efforts. One element of the wildfire safety strategy is to improve situational awareness through the use of advanced technologies. The utility has already deployed 52 new weather stations across its service territory, which will help inform decisions about whether a PSPS event is necessary.

And by the end of September, Hawaiian Electric expects to have installed 44 AI-enhanced video cameras in elevated risk areas, helping the company, fire agencies and emergency operation centers to identify potential wildfires early and respond more quickly.

Hardening the grid is another important component of the utility strategy. This includes making investments to upgrade poles, install covered conductors and strategically underground lines. Importantly, the investments Hawaiian Electric is making to harden the grid will increase resilience for many different kinds of environmental risks that we face in Hawaii, including hurricanes, floods, tsunamis and wildfires. Strengthening this infrastructure will also enhance the reliability of service to customers.

The utility also continues to make important progress to enhance reliability through the expansion of the renewable generation fleet in our state. The utility recently placed 2 new solar plus storage projects in service on Maui and Oahu. The Kuihelani project is Maui's first solar plus storage project and the biggest in Hawaiian Electric system, providing the island with 60 megawatts of solar generation capacity and 240-megawatt hours of storage. The Kupono project, now Oahu's largest solar plus storage project, will provide over 40 megawatts of solar generation capacity and 168-megawatt hours of storage.

Turning now to the bank. As we've discussed over the last year, AEI has been advancing a strategy designed to support a strong, financially healthy enterprise that will empower a thriving feature for Hawaii. Consistent with this approach, HEI has been undertaking a comprehensive review of strategic options for ASB. There is no set timetable for the review and there can be no assurances that any actions regarding ASB will result from our evaluation. In connection with this ongoing evaluation, we recorded a noncash goodwill impairment charge for the bank, which Scott DeGhetto will discuss shortly.

The bank's core operations and earnings remain strong as it continues to serve as a trusted financial partner to customers across Hawaii. Excluding the goodwill impairment, and Maui wildfire-related expenses, ASB improved profitability and grew net income in the second quarter compared to last year. ASB saw net interest margin expansion and through prudent expense control, a decrease in noninterest expense. ASB's loyal and long tenure deposit base remained stable. And as of June 30, 83% of deposits were FDIC insured or fully collateralized.

In summary, our operations remain strong across our companies, and we've made significant progress to clarify the path forward for our company. As we look ahead, we'll continue to take prudent and measured actions to ensure our companies are well positioned to serve our customers and community for the long term.

With that, I'll now turn the call over to Scott DeGhetto, who will discuss our financial results.

Scott T. DeGhetto
Executive VP, CFO & Treasurer

Thank you, Scott. I'll start with our results for the quarter on Slide 6. For the second quarter, we recorded a consolidated net loss of \$1.3 billion or \$11.74 per share. As Scott mentioned, the quarter's results included 2 significant onetime losses. First, at the utility, we recorded a \$1.71 billion loss or \$1.27 billion after taxes due to the accrual of estimated wildfire liabilities from tort-related claims as a result of the proposed settlement announced last week. Including the loss accrual, utility net loss for the quarter was \$1.23 billion.

The \$1.71 billion loss accrued at the utility is lower than the \$1.99 billion we have agreed to under the proposed settlement for two reasons. First, the \$1.99 billion includes the \$75 million One 'Ohana contribution that was accrued in 2023. Second, the settlement amount is spread over 4 equal annual installments and the loss recorded is our best estimate of an equivalent lump sum amount.

Second, we also recorded an \$82.2 million goodwill impairment for \$66.1 million after taxes at ASB in connection with HEI's ongoing review of strategic options. The goodwill was related to acquisitions that took place in the 1980s and 1990s. The impairment is noncash and has no impact on ASB's liquidity. In addition to the \$1.71 billion tort-related accrual, there were \$2.8 million of pretax wildfire-related expenses net of insurance recoveries and deferrals recorded at the utility in the second quarter.

Bank wildfire-related pretax expenses were \$500,000 and holding company wildfire-related pretax expenses were \$6.5 million. Excluding these expenses, consolidated core net income and EPS were \$49.1 million and \$0.44 per share compared to \$54.6 million and \$0.50 per share in the second quarter of 2023.

Utility core net income was \$43.9 million compared to \$45.3 million in the same quarter last year. Bank core net income of \$20.7 million was up from \$20.2 million compared to the same quarter last year and holding company core net loss of \$15.5 million was up from \$10.9 million. Lower utility core net income was driven by higher O&M and higher wildfire mitigation expenses. Bank core net income was up slightly due to prudent expense management and higher noninterest income partially offset by lower net interest income. The core net loss of the holding company was driven by higher losses at Pacific Current.

Turning to our liquidity on Slide 7. We continue to prudently manage our liquidity. And as of the end of the second quarter, the holding company and utility had \$124 million and \$89 million of cash on hand, respectively. In connection with the proposed global settlement related to the wildfires on Maui, HEI and Hawaiian Electric are working closely with financial advisers to develop a financing plan for our settlement contribution.

As Scott noted, the payments would begin after judicial approval of a final settlement and are expected to begin no earlier than mid-2025. We intend to finance the settlement payments through a mix of debt, common equity, equity-linked securities or other potential options, although there can be no assurance at this time as to the availability of terms of any such financing.

Because the plan is still being developed to finance the payments we've agreed to under the settlement, HEI and Hawaiian Electric are required to disclose that there is a substantial doubt regarding each company's ability to continue as a going concern. Accounting rules require that a financing plan be probable of being implemented in order to resolve the conditions giving rise to the substantial doubt disclosure.

Once a financing plan has sufficiently progressed we expect the going concern issue to be resolved. As a result of the going concern assessment, the utility dividend to HEI has been suspended.

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

Question and Answer

Operator

[Operator Instructions] We'll take our first question from Michael Lonegan at Evercore ISI.

Michael B. Lonegan

Evercore ISI Institutional Equities, Research Division

So the plaintiffs and defendants agreed to settle the wildfire cases without the insurance companies who are looking for a significant amount. Just wondering what gives you confidence the settlement will ultimately be finalized under the terms of the deal where the plaintiffs still need to reach an agreement with the insurers or obtain the court order borrowing them from recovering outside the settlement?

Scott W. H. Seu

President, CEO & Director

Mike, this is Scott Seu. The settlement really does represent a very important move forward in that it does lay out the most significant terms to settle the claims, the tort claims. It's recognized that at this stage, yes, the subrogation plaintiffs still have not agreed to the allocation of the total amount of money that would be provided by the defendants. But very importantly, it allows 90 days for those discussions between the individual plaintiffs, lawyers and the subrogation plaintiffs to work that out or in the alternative for the court to actually issue an order, which helps to resolve the issue. So I think it's very important that, again, it brings clarity for everybody, and then it provides a pretty, pretty well-defined process ahead of us to resolve that issue.

Michael B. Lonegan

Evercore ISI Institutional Equities, Research Division

Great. And then secondly for me, you laid out a mix of financing options that you could use to pay for the settlement. Do you have a level of capital spending in mind over this 4-year period and an FFO to debt target over that time frame?

Paul K. Ito

Senior VP, CFO & Treasurer

So Mike, this is Paul. So we're currently working on our long-term capital plans. And obviously, a lot depends on what happens or the timing of the settlement agreement. Clearly, we feel good about getting to a settlement. And based on that having access to the capital markets more broadly for a lot of the growth investments that we foresee in the future, things like our Waiiau generation project and of course, our increased wildfire mitigation type spend. We are targeting investment-grade credit metrics over the long term. That's critical and important for us because it also translates into lower customer bills. So we're very focused on that.

Scott T. DeGhetto

Executive VP, CFO & Treasurer

Yes. Mike, this is Scott DeGhetto. On the broader kind of financing of the settlement, what I would say is we're working closely with our financial advisers to develop a financing plan for our settlement contribution. Keep in mind that the settlement was just agreed to a week ago. And we don't expect payments to begin until mid-2025, at the earliest. So we believe that gives us sufficient time to develop and finalize that plan.

And then as far as the FFO to debt goes, what I would say is we're in constant communication with the rating agencies just in terms of discussing where we are and where we'd like to be over time.

Michael B. Lonegan

Evercore ISI Institutional Equities, Research Division

Great. And then lastly for me. So on your financing plan, you talked about a mix of debt, common equity, equity-linked securities and then broadly speaking, you mentioned other potential options. So you've already disclosed strategic alternatives potentially for American Savings Bank. I'm just wondering, is it fair to say all options are on the table, including maybe selling a stake in the utility or a smaller scale sale like Pacific Current? Or just in general, is there any more color you can provide about the other potential options you mentioned?

Scott W. H. Seu

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President, CEO & Director

Yes. We're not going to get into specifics about the other potential options. From my perspective, we wanted to keep it as broad as possible. I mean there's the regular way debt equity-linked that you mentioned. But there's a lot of other different financing mechanisms available in the marketplace that we want to make sure we take a look at.

Operator

We'll move next to Jonathan Reeder at Wells Fargo.

Jonathan Garrett Reeder
Wells Fargo Securities, LLC, Research Division

First off, as a nonlegal expert, can you just please explain how Judge Cahill's court, I guess, could force the insurers into accepting the settlement and waiving their ability to pursue the subrogation claims against the defendants?

Scott W. H. Seu
President, CEO & Director

Sure, Jonathan. And again, Keep in mind, I am also a non-lawyer. So what's in play right now is you have individual plaintiffs who -- let's see what was the actual date. I think it was -- anyway, just a few weeks ago, they actually filed an Judge Cahill's court a motion, which challenges the subrogation plaintiff's ability to independently see claims. So that is one of the ongoing efforts by the individual plaintiffs. Judge Cahill has agreed to hold a hearing on August 13, in which he will really look at the issue of whether or not individual plaintiffs -- I'm sorry, subrogation plaintiffs are required to work through individual plaintiffs' settlement amounts as opposed to themselves in parallel coming against the defendants.

So the August 13 hearing is just that. It's a hearing. We don't have any particular sense of how long it will take for the judge to rule on this issue. We're hopeful that it will be resolved fairly quickly, which would allow more clarity to be brought to the overall settlement agreement.

Jonathan Garrett Reeder
Wells Fargo Securities, LLC, Research Division

Okay. So I mean, again, this is my nonlegal understanding, but if he requires the insurance companies to work through the individual plaintiffs and settlement agreements, isn't that kind of putting a substantial financial and legal burden back on the victims after reaching this settlement and really not allowing them to move forward if the insurance companies can essentially go after these individual plaintiffs to try to recoup the \$2.3 billion or whatever that they paid out so far?

Scott W. H. Seu
President, CEO & Director

Yes. I mean, in effect, what the individual plaintiffs' lawyers are arguing is that in effect, it does result between having to resolve the issues between the individual plaintiffs and the insurance companies. So you're correct.

Jonathan Garrett Reeder
Wells Fargo Securities, LLC, Research Division

Okay. Yes. No, it just doesn't seem like an ideal outcome either. So like what happens exactly after 90 days, assuming the court doesn't come to this agreement and if the victims have not -- or sorry, if the insurers and the victims haven't resolved their dispute, what happens after 90 days? Is it just the settlement kind of dissolves and then those court cases would kind of resume that are currently suspended?

Scott W. H. Seu
President, CEO & Director

Well, so the term sheet does require as a condition precedent that, again, within this 90 days, either there is an agreement that's reached between the individual plaintiffs and the subrogation plaintiffs or you receive a court decision that resolves the issue. If the 90 days comes and goes without either of these occurring, then it's fair to say all the parties would assess/reassess what the right steps forward are at that point. But I can't speculate on what that would be.

Jonathan Garrett Reeder
Wells Fargo Securities, LLC, Research Division

Okay. And then, I guess, just another one for me, if you don't mind. With the global settlement, I mean, it seems like it's really within reach and defendants seemingly are highly motivated to reach the settlement getting finalized. It would seem like the one way to get there might be to increase the total size of the settlement above the \$4.04 billion to hopefully get the insurers on board, but not at the expense of the victims. How would you describe the prospects and willingness of the defendants to this?

Scott W. H. Seu

President, CEO & Director

Well, I can't speak for the other defendants, Jonathan, but I can say that I think we believe that the -- what's reflected in the current term sheet is a fair outcome and really, the issue is between the subrogation plaintiffs and the individual plaintiffs. We feel that, again, we are hopeful, I am cautiously optimistic that it will be able to be worked out.

Jonathan Garrett Reeder

Wells Fargo Securities, LLC, Research Division

Okay. Like I know in the term sheet kind of said that the amount kind of represents the maximum amount that I guess the parties could kind of handle. Is that true for all of them? Or is it based on, I guess, the mediators' also like assigned responsibility or liability?

Scott W. H. Seu

President, CEO & Director

Yes. Again, I can't comment on what the capacity is of all the different defendants. This was an overall amount and the allocated amounts were developed through the mediation process. The mediators considered any number of factors, which, again, I can't really speculate on.

Jonathan Garrett Reeder

Wells Fargo Securities, LLC, Research Division

Good luck with the difficult situation.

Operator

And that concludes our Q&A session. I will now turn the conference back over to Scott Seu for closing remarks.

Scott W. H. Seu

President, CEO & Director

So thank you all for calling in today. So in closing, I want to first acknowledge again the significance of the 1-year anniversary of the Maui wildfires. The perseverance and resilience and togetherness of the Lahaina and Kula communities really shown through all of yesterday's remembrance events. I also want to acknowledge our shareholders, a great -- many of whom are our neighbors here, for your continued investment in HEI, we've made significant progress towards rebuilding the strength of our company and the service of the people of Hawaii.

We truly do recognize that service to our people, our communities and our customers. We feel that this settlement agreement represents significant progress. It's a very large accomplishment as it brings certainty and creates a path forward for us. We do not intend to raise rates to pay for the settlement amounts. And we believe that we will be ultimately successful in meeting the needs. So again, we greatly appreciate your support and we'll continue to help our communities move forward to a sustainable future. Thank you.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.

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