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SRE.N - Sempra Energy Announces Integrated Transactions To Form New Infrastructure Platform Conference Call

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OVERVIEW:

Co. provided an update that earlier this week, it has announced a series of integrated transactions designed to advance its strategy by organizing infrastructure businesses under a common growth platform known as Sempra Infrastructure Partners.

CORPORATE PARTICIPANTS

Jeffrey Walker Martin *Sempra Energy - Chairman, President & CEO*

Manuela Molina Peralta *Sempra Energy - VP of IR*

Trevor Ian Mihalik *Sempra Energy - CFO & Executive VP*

PRESENTATION

Operator

Good day, and welcome to the Sempra Energy Infrastructure Business Update Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Nelly Molina. Please go ahead.

Manuela Molina Peralta - *Sempra Energy - VP of IR*

Good morning, and welcome to Sempra Energy's Infrastructure Business Update Call. A live webcast of this teleconference and a slide presentation is available on our website under the Investors section. From our management team, I am joined today by Jeff Martin, Chairman and Chief Executive Officer; and Trevor Mihalik, Executive Vice President and Chief Financial Officer.

Before starting, I'd like to remind everyone that we'll be discussing forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those projected in any forward-looking statements we make today. The factors that could cause our actual results to differ materially are discussed in the company's most recent 10-K and 10-Q filed with the SEC. Please refer to the presentation slides that accompany this call.

I'd also like to mention that the forward-looking statements contained in this presentation speak only as of today, December 4, 2020, and the company does not assume any obligation to update or revise any of these forward-looking statements in the future. Lastly, because we are still in the filing period of our tender offer in Mexico and because we are also in the process of filing our S-4 with the SEC, we have been advised to forego our normal question-and-answer session following management's prepared remarks.

With that, please turn to Slide 4, and I will hand the call over to Jeff.

Jeffrey Walker Martin - *Sempra Energy - Chairman, President & CEO*

Thanks a lot, Nelly, and thank you all for joining us today. Many of you have heard me speak from time to time about our continued focus on optimizing our portfolio consistent with our North American strategy. That's why, earlier this week, we were pleased to announce a series of integrated transactions designed to advance our strategy by organizing our infrastructure businesses under a common growth platform. The purpose of this call, therefore, is to take the time to explain the business rationale for these transactions and why these efforts are expected to enhance shareholder value. Once these transactions are completed, we believe this new growth platform will be well positioned to be a leader in the global energy transition, and we expect to highlight the overall franchise value of our North American infrastructure assets. Finally, in combination, we expect these transactions to be accretive to Sempra's earnings per share.

Now please turn to the next slide. Since 2018, you'll recall that we've been focused on investing in the most attractive markets in North America and, particularly, in T&D like infrastructure with a lower risk profile and strong earnings visibility.

In so doing, this strategy has allowed us to narrow our geographic footprint by executing on roughly \$27 billion in enterprise-wide transactions, benefit from improved fit and focus within our portfolio, reduce operating and financial risk, all with the goal of delivering improved financial returns and more visible growth.

Today, we're focused on 2 business lines, utilities and infrastructure. These are complementary investments backed by regulated rates of return on one hand and long-term contracted cash flows on the other.

Please turn to the next slide. Within our North American infrastructure business, we have 2 franchises: IEnova and Sempra LNG. Over the last 2 years, we've seen the growth capital in these 2 businesses converge around the landmark Energia Costa Azul, or ECA, LNG project, which you'll recall that we sanctioned just last month. Thus far, it's the only LNG export project in the world to reach FID this year, and I actually think it reflects favorably on our team's ability to continue developing world-class projects, even against a tough economic backdrop.

By simplifying the ownership structure of Sempra LNG and IEnova under Sempra Infrastructure Partners, we believe it better positions us to develop large-scale integrated LNG projects, such as ECA, and cross-border renewable power and transmission investments, such as our Energia Sierra Juarez, or ESJ, renewable complex. We also believe this new streamline platform will offer notable scale benefits and portfolio synergies. Overall, it's our expectation that the integrated transactions being discussed today will create value over the long run for Sempra Energy and the shareholders of IEnova who elect to tender their shares for Sempra stock.

Please turn to the next slide. Sempra's existing infrastructure platform is well positioned to capitalize on several exciting opportunities that are worth mentioning. With respect to natural gas, we have a competitive position that allows us to export natural gas both to Mexico and global markets. We also have a competitive position in renewables, particularly in the cross-border region right here in Southern California. That's why with the formation of Sempra Infrastructure Partners, we think we can combine the strengths of both companies and improve our ability to capture incremental growth.

On the LNG front, we think we have an industry-leading platform with approximately 12 million tonnes per annum of operating assets generating robust cash flows today, and we're really excited about the prospects of our development projects that are geographically advantaged along the Gulf and Pacific Coast. Additionally, our ownership of 11 out of 20 U.S.-Mexico cross-border pipelines provides competitive access to the U.S. Southwest energy and capacity markets.

It's also notable that these high-pressure transmission lines are backed by long-term dollar-denominated contracts. Lastly, there are also strategic cross-border opportunities in the clean energy space with approximately 1 gigawatt of wind and solar projects in our portfolio today and nearly 3 gigawatts of wind, solar and battery development projects in our pipeline.

Next, please turn to the next slide where Trevor will walk you through some examples of our major development efforts.

Trevor Ian Mihalik - Sempra Energy - CFO & Executive VP

Thanks, Jeff. The expansion of our LNG business in Mexico creates significant overlap between Sempra LNG and IEnova. As Jeff mentioned earlier, Sempra LNG and IEnova have embarked on a \$2.4 billion investment in Baja California. This is split between \$2 billion at ECA LNG and \$400 million for an associated gas pipeline expansion.

We're eager to capitalize on the synergies associated with Sempra Infrastructure Partners' development capabilities, operating experience and overlapping asset footprint. In addition to ECA LNG, this combined franchise will be well positioned to execute on the significant opportunity set of wind, solar and battery projects in Mexico.

Please turn to Slide 9. IEnova is one of the leading developers of renewable energy projects in Mexico. With its existing footprint, knowledge of the regulatory landscape and demonstrated ability to develop projects with public and private off-takers, IEnova is well positioned to capture new opportunities in Mexico, perhaps none more so than the ESJ renewable complex that Jeff mentioned previously. One of the advantages of our renewables development portfolio is our existing high-voltage electric transmission assets, which are also geographically advantaged to connect quality renewable resources in Mexico to demand for renewables in Southern California.

Please turn to the next slide. Under the current structure, IEnova is a publicly traded company, with Sempra being the majority owner and an approximate ownership interest of 70%. Upon receiving the required regulatory approvals, Sempra intends to launch a stock-for-stock exchange

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offer to acquire IEnova's publicly traded shares. This is intended to increase Sempra's ownership from approximately 70% to up to 100%. To facilitate the transaction, we plan to list Sempra Energy shares in the form of exchange shares on the Mexican Stock Exchange. In conjunction with this exchange, Sempra LNG and IEnova will combine to create a new business unit, Sempra Infrastructure Partners.

Please turn to the next slide. The final step will involve a sale of a noncontrolling interest in the new partnership. Our goal is to align our ownership with a like-minded investor that recognizes the value of our infrastructure platform. We'll also privilege certainty of a timely close as an important consideration. To execute on this process successfully, various criteria have been established, including executing with a view towards growing EPS over the long term, improving business strength and scale, maintaining or improving the existing credit profile and enhancing support for LNG and growth in renewables and, depending on the level of equity sold, looking to sustain or even grow existing cash flows.

Please turn to Slide 12. Here, we have included a demonstrative time line of expected key activities. The exchange offer for IEnova stock requires IEnova Board approval, along with regulatory and other customary approvals. As we move forward with the integrated transaction process, including receiving the necessary approvals, we're targeting to complete the series of transactions by the end of the first quarter 2021.

Please turn to the final slide. By creating a new integrated infrastructure platform with a primary focus on LNG, this entity will have the financial scale not only to independently raise capital to fund organic growth projects, but also benefit from operational synergies and a management team with strategic capabilities and strong industry expertise. Additionally, a combined business allows us to more efficiently reinvest cash flows in and allocate capital to projects with higher expected returns.

And with that, this concludes our prepared remarks. Thank you all for joining today, and I hope everyone continues to stay safe and healthy. Please feel free to reach out to our IR team with any clarifying questions.

Operator

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

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