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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Natalie and I will be your conference operator today. At this time, I would like to welcome everyone to the Fourth Quarter Earnings Call for Exelon Corporation. [Operator Instructions] After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you. Mr. Ravi Ganti, Vice President of Investor Relations, you may begin your conference.

Ravi Ganti

Vice President, Investor Relations, Exelon Corp.

Thank you, Natalie, and good morning, everyone. Welcome to Exelon's Fourth Quarter 2012 Earnings Conference Call. We issued our earnings release this morning. If you haven't received it, the release is available on Exelon's website.

The earnings release and other matters we will discuss in today's call contain forward-looking statements and estimates that are subject to various risks and uncertainties as well as adjusted non-GAAP operating earnings. Please refer to today's 8-K and Exelon's other filings for a discussion of factors that may cause results to differ from management's projections, forecasts and expectations and for a reconciliation of operating to GAAP earnings.

Leading the call today are Chris Crane, Exelon's President and CEO, and Jack Thayer, Exelon's Executive Vice President and Chief Financial Officer. They are joined by other members of Exelon's executive management team, who will be available to answer your questions. We have scheduled 50 minutes for this call.

I will now turn the call over to Chris Crane, Exelon's CEO.

Christopher M. Crane

President and Chief Executive Officer, Exelon Corp.

Thanks, Ravi. Good morning, everyone. Today I will review the 2012 operating results, introduce our 2013 earnings guidance and announce our new dividend policy. Looking at 2012, it was an important and eventful year for Exelon. In March we completed our successful merger with Constellation. In addition to over \$550 million in expected synergies, the transaction resulted in commercial balance of generation and load, helping reduce earnings volatility in our merchant business.

Exelon's ability to deliver on operational excellence was once again evident in 2012, and I'll share some of those highlights a bit later. As you know, 2012 was a difficult year on the economic front for our sector. Some of the significant challenges included lower commodity prices, reduced load growth expectations, margin compression in retail and major storms in two of our service areas.

In the fourth quarter of 2012, we recorded earnings of \$0.64 per share and full year operating earnings of \$2.85. These results fell within our guidance range. Q4 earnings reflect \$0.05 of cost at PECO and BGE due to the effect of Hurricane Sandy, which was in line with our preliminary estimate. At its peak, PECO and BGE had service interruptions to over 1.2 million customers. Our crews worked to restore power to not only those in our service territories, but also those in New York and New Jersey as well. All three utilities received awards in recognition of their exceptional response efforts from EDI in January.

Our nuclear fleet capacity factor for 2012 came in just shy of 93%, capping another year of good fleet performance. On our Q3 earnings call, we mentioned that the Illinois Commerce Commission decision regarding the pension asset added \$0.10 of earnings in 2012 for ComEd versus the guidance we provided at Analyst Day.

We continued our growth during 2012. We added nearly 500 megawatts of new clean generation that included 400 megawatts in wind, 30 megawatts in solar and 60 megawatts in nuclear upgrades. Finally, we achieved our 2012 O&M synergy goal of \$170 million and have completed the actions to lock in on \$350 million of the \$550 million expected run rate savings.

For the 2013 outlook, today we are introducing our operating earnings guidance for 2013. We expect our operating earnings range to be in the \$2.35 to \$2.65 per share, and our first quarter guidance is \$0.60 to \$0.70 a share. Jack will provide you more color on that later on the call.

Let me discuss our view on the near-term power market dynamics. Both the spot and the forward commodity prices suffered large drops in 2012. Natural gas spot prices dipped to a low of \$1.81 in MMBtu levels and that had not been seen for a decade, while the forwards traded in the mid \$3 to \$4 range. More recently the prospects of slow economy recovery and plentiful gas supplies have kept the forward markets for power and gas relatively steady at the depressed levels.

In response to the low forward prices and weaker financial expectations, we took several steps during 2012 to maintain our \$2.10 dividend and strengthen our credit metrics. Most significantly we reduced our growth investment plans by \$2.3 billion during the year by delaying or canceling nuclear upgrade projects and removing other investment targets.

We said in November that we needed the forward power markets to show evidence of \$3 to \$6 fundamental upside to give us confidence that further actions would not need to be taken to strengthen our balance sheet. While we waited for the market to rebound, to begin during the last quarter of 2012 and earlier this year, we reexamined our financial priorities in our dividend practice. We believe that our dividend should be sized to reflect our business model and keep our balance sheet strong. We also think that the dividend must be sized to allow us capacity and flexibility to pursue growth that will enhance the company's long-term value.

While we remain confident that there is \$3 to \$6 a megawatt hour of fundamental upside in the market, it is increasingly clear that we will not see the upside as soon as we had expected. The applied heat rate in NiHub and West Hub forward markets are essentially the same or lower compared to the settled heat rates in 2010 and 2011. This is despite announcements that approximately 19,000 megawatts of coal have retired – or will retire in PJM by 2015.

When this supply exits the generation stack, market heat rates should rise, but we observe that this is not yet reflected in the forward prices. The change in the stack will eventually cause spot heat rates to rise, which will then reflect in the forwards as liquidity improves. Right now, however, it appears that few buyers want to pay fair value to insulate their exposure to the supply shift. They would rather wait and see as evidenced by the power prices and the margins that we are observing today.

These market dynamics have brought us to a point where we no longer should add debt to our balance sheet to preserve the current dividend and put our credit metrics at risk. An investment-grade rating is a top priority for us. It is critical to preserving our business and financial flexibility, efficient capital market access, enhanced business opportunities and efficiently manage our liquidity requirements.

Without near-term market recovery and a strong desire to resolve the uncertainty of our dividend, our Board and I have determined now is the time to act. This was a tough decision for all of us. We recognize the value of the dividend to our investors. We analyzed several scenarios and determined that this action will provide the investor with a stable, sustainable dividend and capacity for growth in long-term value.

We have an opportunity to invest in growth. We cannot do that efficiently if we're leaning on a balance sheet to maintain an 80% to 90% payout level. We are acting now to right-size our dividend to be more in line with the commodity-sensitive nature of our business. After assuring that we have a strong balance sheet and credit metrics, we'll renew our focus on investing in growth, future growth, to enhance long-term shareholder value.

With this background in mind, our Board met earlier this week to make a determination on the dividend. Exelon's Board of Directors has declared the first quarter dividend for 2013 of \$0.525 per share and approved our revised dividend level going forward. The revision is based off a rigorous financial analysis and internal review process.

The first quarter dividend reflects a previous level of \$2.10 a share on an annualized basis, while the new dividend level contemplates a regular dividend of \$0.31 quarterly dividend beginning in the second quarter of 2013 or \$1.24 per share on an annualized basis. We intend to maintain our normal cadence of quarterly dividend declarations by the Board, so the Board will take formal action to declare the next dividend in the second quarter.

Central to our analysis and recommendation to the Board is our ability to achieve and maintain our financial priorities under sustained stressed gas and power price environments and the one-time operational and financial risks. While the dividend analysis used a bottoms-up approach, we also noted that the final sizing of payout ratio was well within line with our peers. Jack will address some of the details behind the analysis in his remarks.

Let me now discuss Exelon's sustainable growth platform and our thinking about the future. Exelon's value proposition and competitive advantage comes from our scope and scale across the energy value chain and our core strength of operational excellence and financial discipline. Our broad scope from upstream business to beyond the meter and everything in between offers a broad range of investment opportunities and allows us to prioritize the deployment of capital efficiently. Similarly, our expansive scale provides the ability to be highly competitive by capturing synergies through economy of scale. I want to remind you that investing for growth is not new to us.

Exelon has a proven track record where we have demonstrated our competitive advantage, our core strengths and our expertise to grow our portfolio and return value to our investors. We have a disciplined, rigorous approach to evaluating our growth opportunities. Target opportunities are scrutinized through a series of steps using criteria including financial metrics, portfolio diversification, and regulatory environmental considerations.

Over the last three years we have invested over \$6 billion across the energy value chain via organic growth in M&A, which does not include our merger with Constellation. This includes upstream activities, conventional gas-fired generation, nuclear upgrades, renewable generation, investment in our utilities and expansion to our retail platform. These investments have proved returns in excess of the cost of capital and will be accretive from a free cash flow, earnings and credit metrics perspective.

We look across the entire energy value chain for opportunities to invest. Of particular interest to us in the current environment are assets that add stable cash flows. These could include contracted generation, both conventional and renewable, regulated revenues from our utility investments. We expect to invest excess cash opportunistically after meeting our balance sheet, base capital and dividend needs. We will continue to follow our disciplined approach to investment that has served us well in the past and expect to see returns in excess of our cost of capital.

The updated dividend that I am announcing today, coupled with our sustainable approach to growth investments, should provide our investors with significant value in the form of a healthy balance sheet, sustainable dividend and participation in earnings growth from incremental investment.

Now we'll turn it over to Jack and he can provide more details on the dividend sizing and walk through the earnings guidance for 2013.

Jonathan W. Thayer

Executive Vice President and Chief Financial Officer, Exelon Corp.

Thank you, Chris, and good morning, everyone. My comments will first provide a few more thoughts on the dividend analysis and then conclude with some insight on 2013 guidance and cash outlook.

Slide 5 outlines the financial priorities that are the foundation of the value creation framework, our analysis and our decision making. As you recall, we outlined three priorities on the third quarter earnings call: first, remain investment-grade across all registrants; second, return value to our dividend; and third, deploy free cash flow to grow and create value.

Maintaining our investment-grade rating remains our top priority and is crucial to our strategy. We have combined priorities two and three into a comprehensive value-creation framework that includes a new sustainable dividend and the ability to leverage remaining available cash and balance sheet capacity to grow earnings and enhance shareholder value. Depending on the circumstances, these value-creating opportunities may include investment in growth, reducing our long-term debt, dividend growth and share repurchases.

As Chris mentioned, we made several difficult decisions in 2012 to maintain our focused financial priorities. Addressing the dividend became the necessary next step to ensure that we can comfortably maintain the priorities going forward. It is important to note that this is an action we only want to take once. I will talk about our approach to developing and our confidence in the revised dividend policy on Slide 6.

The foundation of our analysis was the long-range financial plan that we developed in the fall, our first bottoms-up plan since integrating the two companies. Our focus then turned to the stress cases, where we analyzed many scenarios within three categories. First, a sustained commodity price stress based on constant \$3 per MMBtu of gas; second, other commercial and new business risks; and third, large one-time impacts such as the like-kind exchange liability, which we updated on our Form 8-K last week.

The stress case scenarios form the basis against which we tested the sustainability of the dividend and our investment-grade credit metrics. We were able to meet our financial priorities under each of the stress case scenarios and we're confident the new dividend is sustainable. While we've tended to focus on FFO to debt targets in our discussions with you, internally we target a more comprehensive set of metrics, including each rating agency's respective criteria. In sizing the dividend, we evaluated each agency's full set of metrics under a number of scenarios, including the stress cases I just discussed.

This rigorous process culminated in a dividend policy with six guiding principles: first, maintain investment-grade credit ratings at all OpCos; second, ensure the new dividend rate is sustainable; third, that it's funded by both the regulated utilities and the unregulated business; fourth, it provides capital capacity for value-enhancing growth opportunities; fifth, that it allows for the opportunity to grow the dividend over time with increases supplied largely by earnings growth at the utilities; and lastly, that the new dividend rate offers a competitive value proposition relative to other integrated comparables.

Applying this policy resulted in a new dividend of \$1.24 per share based on the following sum of the parts methodology. The utilities will continue to target a payout ratio of 65% to 70%, in line with regulated peers. This provides a strong foundation for dividend support and maintains the utilities' ability to reinvest in their territories. The utility target was based on a steady state, recognizing that BGE is restricted from paying a dividend until 2015.

ExGen's dividend contribution is not based on a specific payout target. Instead, we sized it to be sustainable under a stress case from both a credit metric and cash flow perspective. We've targeted credit metrics supportive of mid to high BBB at ExGen throughout the commodity cycle. Among the key metrics we analyzed were FFO to debt, with retained cash flow defined as FFO less dividends and positive free cash flow defined as cash from operations less CapEx and dividends.

Finally, we benchmarked against a series of peer sets from competitive integrators to other commodity-driven peers, such as metals, specialty chemicals and refineries. The new dividend remains competitive on a payout ratio in both base and stress scenarios against this peer set. In short, it allows us to deliver on our key financial priorities: maintaining investment-grade ratings and reinvesting available growth capital to create value for our shareholders through the commodity cycle.

On Slide 7, I will now turn the focus to the 2013 outlook. The 2013 earnings guidance of \$2.35 to \$2.65 per share that Chris introduced is not directly comparable to the composition of the 2012 results due to the merger, as a full year of earnings is offset by a higher share count in 2013. However, we have included year-over-year earnings bridges in the appendix of today's presentation that improve the transparency of our earnings expectations for each OpCo. I will comment on a few of the key drivers.

As you would expect, lower commodity prices and market conditions are the primary driver of lower expected ExGen earnings in 2013 as compared to 2012 results. On a positive note, as Chris referenced earlier, we are seeing the benefits of our growth projects, which are providing a steady contribution to earnings and cash flow. To that end you will also see that O&M and depreciation expenses at ExGen are increasing. The revenue contributions of the projects, which are in the ExGen RNF driver, along with the tax benefits, more than offset these higher costs.

In addition to the project-related costs of ExGen, O&M expense increases in 2013 are driven by inflation across all OpCos as well as to a lesser extent pension and OPEB. O&M synergy savings, which are ahead of schedule, with \$355 million planned for 2013, are offsetting a portion of these higher costs as we reported \$170 million of synergies in 2012.

Higher depreciation expense is due to several projects coming online, including portions of AVSR1 and several wind projects. The utilities as a whole are expected to contribute a similar level of earnings in 2013, with a full year of BGE being offset by higher average share count at all OpCos. We have included a detailed driver page in the appendix of Slide 19 to help you with our year-over-year O&M comparisons.

The last point related to 2013 is that we intend to record a one-time non-cash charge of approximately \$270 million in the first quarter in connection with our reevaluation of the like-kind exchange position. The Form 8-K that we filed on January 31 provides the details behind the reevaluation. This charge will not be reflected in operating earnings, so it has not been included in the guidance range of \$2.35 to \$2.65 per share. As of March 31, 2013, the potential cash outflow may be as much as \$860 million in the event we are unsuccessful in the upcoming litigation. We expect that to commence later this year and to take three to five years to resolve.

Moving to Slide 8, I will highlight a couple of points related to ExGen RNF. Slide 8 provides the year-end hedge disclosures compared to the data as of September 30. Forward prices declined at West Hub and NiHub by an

average of \$1.50 and \$0.50 per megawatt hour, respectively, which brought down open gross margin by \$150 million to \$200 million per year, although this is mostly offset in the mark-to-market of our hedges.

Power new business to go has come down in 2014 and 2015, primarily because we revised our retail expectations. With heightened competition and the impact of low prices and volatility, we observed retail margins right around the bottom of our prior expectation of \$2 to \$4 per megawatt hour for the full year 2012 and below the low end of the range in the fourth quarter of 2012. It is also important to note that we have not changed our ratable hedging policy in light of the dividend change, but we still retain flexibility in our hedging actions within the policy.

On Slide 9 I'll wrap up with a few highlights related to our 2013 cash flow expectations. Cash from operations is expected to be nearly \$6 billion, which includes our planned pension and OPEB contribution of \$550 million, in line with what we showed at EEI. Of this amount, roughly half is related to pension and reflects our \$250 million level funding strategy in our largest pension. This strategy will stabilize cash flows and reduce volatility for our largest plan.

2013 CapEx plans are largely consistent with the estimates provided at EEI and are also outlined in detail in the appendix on Slide 20. One item of note is that ExGen's capital plan includes an estimate for Fukushima response costs of roughly \$350 million over the next five years, which assumes filtered vents are not required. This was in the base CapEx we presented at EEI and we are breaking this out separately for the first time to increase transparency.

We estimate filtered vents would require an additional \$15 million to \$20 million per unit of capital cost at our 11 Mark I and II units, and we expect the NRC's ruling on this matter in the first quarter. Our O&M outlook also includes Fukushima response costs of less than \$50 million in total over the next five years, which would not change with the inclusion of the filtered vents.

Lastly as it relates to financing, the debt increase at ExGen in 2013 is related to planned project financing tied to our existing wind portfolio along with continued draws on our DOE loan guarantee to fund the AVSR solar project.

In closing, the appendix includes several schedules that will aid you in your modeling efforts, including load expectations, capital expenditures, tax rate assumptions by OpCo. That concludes my comments. I'll now turn the presentation over to Chris for a few closing comments before we open the line for Q&A. Chris?

Christopher M. Crane

President and Chief Executive Officer, Exelon Corp.

Thanks, Jack. So with the tough decision on the dividend behind us, I am more confident than ever in our ability to deliver value for you going forward. Exelon is strategically positioned with a strong balance sheet, a sustainable dividend and now more capacity to invest in growth. We have the best team, the best assets and the best prospects of any company in the industry.

While the power markets may take time to turn around, we have positioned ourselves to maintain financial strength while investing in growth that will deliver value. Over the years we've shown that we can do that, and we expect to invest to create incremental value for our shareholders going forward.

So with that, we'll open it up to Q&A.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Stephen Byrd.

Christopher M. Crane

President and Chief Executive Officer, Exelon Corp.

Hi, Stephen.

A

Stephen C. Byrd

Analyst, Morgan Stanley & Co. LLC

Hi. I wanted to go back. Chris, you had talked a bit about the strategy and had sort of discussed the risk tolerance on that. I just wanted to make sure that I had understood clearly that – can you talk just a bit more about, as you think about the degree of merchant risk that you're willing to take, as you think about using your excess cash flow to grow the business over time and how you assess those versus say more contracted opportunities?

Q

Christopher M. Crane

President and Chief Executive Officer, Exelon Corp.

Yes. At this point we would be looking at more certainty in returns. I think we have adequate risk in the portfolio at this point, so it would be more around contracted assets, renewables that are contracted, making investments in that area. The big opportunity that we have is the growing investments we can make in the utilities. So it would always be about value and how we think it fits in the portfolio. So I would not rule out a merchant opportunity if it was the right opportunity. But that would not be our priority at this point.

A

Stephen C. Byrd

Analyst, Morgan Stanley & Co. LLC

Makes sense. Understood. And just as follow-up, Chris, maybe just talking more broadly, President Obama mentioned carbon regulation effectively recently. And I was just curious from – as you all look at the landscape and the potential for carbon regulation, what's your sense of the landscape or the prospects for carbon regulation over time?

Q

Christopher M. Crane

President and Chief Executive Officer, Exelon Corp.

I think there's going to be a lot of battling over the next four years in Washington. It's very hard to predict that they would be able to produce anything. It is not something that we're basing ourselves on right now. I think the regulation would have a fight. We would like to see a bipartisan approach to deal with the environmental issues and would hope at some point that that will happen, but not a strong likelihood right now. David or Joe, do you want to add anything to that?

A

Joseph R. Glace

Chief Risk Officer & Senior Vice President, Exelon Corp.

Chris, I think you covered it. It's Joe. I think there's a lot of different proposals out there right now for greenhouse gas regulation of existing sources. We think that's going to take a number of years to sort itself out. We are aware that NRDC and others have put forward some proposals and undoubtedly we will see some new proposals in the coming months. And we would expect EPA to take its time with this.

A

Stephen C. Byrd

Analyst, Morgan Stanley & Co. LLC

Understood. Thank you very much.

Q

Operator: Your next question comes from the line of Greg Gordon.

Greg Gordon

Analyst, International Strategy & Investment Group, Inc.

Thanks. Good morning.

Q

Christopher M. Crane

President and Chief Executive Officer, Exelon Corp.

Hey, Greg.

A

Greg Gordon

Analyst, International Strategy & Investment Group, Inc.

Jack, I know that you went over what sounds like an extremely rigorous thought process in terms of sizing the dividend. Was this policy change previewed with the rating agencies? Or are we going to now sort of – is this the first time they're seeing your philosophy on the new payout?

Q

Jonathan W. Thayer

Executive Vice President and Chief Financial Officer, Exelon Corp.

Greg, as you might imagine, we've had rather extensive dialogue with all of the constituent agencies on this topic and throughout the year. It certainly was developed and deliberated. The stress cases were analyzed and reviewed and shared with them, and I would expect that their commentary on our actions announced today will incorporate their thoughts on the impact on the dividend reduction on our overall credit outlook and ratings.

A

Greg Gordon

Analyst, International Strategy & Investment Group, Inc.

Thanks. And as a follow-up, I noticed that the hedge profile in NiHub has increased modestly since the last disclosure, but at the same time, when I look at the sensitivity that you guys disclosed to a \$5 change plus or minus to power prices, unless I'm reading it wrong, your 2014 and 2015 exposure is higher now than it was in the last quarterly disclosure. Is that reflective of a hedging strategy where you are trying to express your view that these rates are too low and you're keeping your heat rate position open?

Q

Christopher M. Crane

President and Chief Executive Officer, Exelon Corp.

Let me have Ken touch that.

A

Kenneth W. Cornew

Chief Commercial Officer & Executive VP, Exelon Corp.

Greg, you're spot on. As we talked about, we clearly see that this upside in the market exists in heat rates. We have adjusted our hedging strategies to keep more heat rate upside than we actually had the quarter before. That's a combination of slowing down our hedging, putting on some more put options positions and selling some gas. So we've shifted our strategy and our confidence in that heat rate upside is there and that's what you're seeing in our hedge disclosure.

A

Greg Gordon*Analyst, International Strategy & Investment Group, Inc.*

Thank you, gentlemen.

Q

Christopher M. Crane*President and Chief Executive Officer, Exelon Corp.*

Thanks, Greg.

A

Operator: Your next call comes from the line of Daniel Eggers.**Jonathan W. Thayer***Executive Vice President and Chief Financial Officer, Exelon Corp.*

Hey, Dan.

A

Dan L. Eggers*Analyst, Credit Suisse Securities (USA) LLC (Broker)*

Hey. Good morning, guys. Can you just talk a little bit about your expectations for power markets and what's changed from three months ago to the dividend reduction decision?

Q

Christopher M. Crane*President and Chief Executive Officer, Exelon Corp.*

Ken?

A

Kenneth W. Cornew*Chief Commercial Officer & Executive VP, Exelon Corp.*

Yes, Dan, as I just said, we continue, our models continue to rationalize significant upside, particularly in NiHub and quite frankly in the East, especially New York, New England, and PJM, Mid-Atlantic. We aren't seeing it in the power markets. We're still at a point where we're two-plus years out. The buyers and sellers haven't really come together on that view yet. We are starting to see some others talk about this upside. So I really do think it's there. I think it'll rationalize in the spot market. As we see units roll off and get some more volatile higher load periods late this summer, I would expect we're going to see some improvement in heat rate as we're actually seeing right now this winter. And that should start to reflect itself in the market on the power side.

A

Dan L. Eggers*Analyst, Credit Suisse Securities (USA) LLC (Broker)*

Okay. And I guess just on the hedging policy, I know you guys are going to keep it – it sounds like you're going to keep it pretty consistent with history. Did the agency suggest more flexibility in how you hedge going forward with a lower dividend or do they still kind of look for you guys to maintain the policy you've had in place for the last couple years?

Q

Christopher M. Crane*President and Chief Executive Officer, Exelon Corp.*

Dan, I'd say they take great confidence in the ratable strategy that we've historically pursued and anticipate continuing to pursue. Importantly, we do have flexibility within that ratable policy that affords us the opportunity to the extent that we see relative to our fundamental view, prices higher or lower to express a point of view within a roughly 10% band either side. And I think we'd expect to continue that going forward. Certainly with the resized

A

dividend, I would expect commentary from the agencies affords us more flexibility probably in how we're approaching growth opportunities and other elements relative to where we might have been under the legacy [indiscernible] (33:43) rate.

Kenneth W. Cornew

Chief Commercial Officer & Executive VP, Exelon Corp.

A

And Dan, you can see it in our hedge disclosure, we are lagging behind ratable by 3% or 4% now. We actually were thinking about a little more than that. We saw some uptick in November in the markets and we're seeing some positive stuff right now in the markets, so we'll continue to take advantage of those kinds of moves. But I would expect we'll continue to keep a bit of a more open position and particularly a bigger heat rate position going forward.

Dan L. Eggers

Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Okay. Thank you, guys.

Christopher M. Crane

President and Chief Executive Officer, Exelon Corp.

A

Thanks, Dan.

Operator: Your next question comes from the line of Jonathan Arnold.

Christopher M. Crane

President and Chief Executive Officer, Exelon Corp.

A

Hey, Jonathan.

Jonathan P. Arnold

Analyst, Deutsche Bank Securities, Inc.

Q

Hi, good morning, guys. Can you hear me?

Jonathan W. Thayer

Executive Vice President and Chief Financial Officer, Exelon Corp.

A

Yes.

Christopher M. Crane

President and Chief Executive Officer, Exelon Corp.

A

Yes.

Jonathan P. Arnold

Analyst, Deutsche Bank Securities, Inc.

Q

My question has to do with the stress case that you looked at and could you make some comments around how you thought about retail margins in that stress case and perhaps just some kind of an update on what you're seeing in the retail space? I know last quarter you were talking about some competitive behavior on the part of some others. So maybe an update there, and then the stress.

Christopher M. Crane

President and Chief Executive Officer, Exelon Corp.

A

Let me have Jack cover the basis for the stress case and then Ken can put some color around the retail margins.

Jonathan W. Thayer

Executive Vice President and Chief Financial Officer, Exelon Corp.

A

Jonathan, the questions you're asking get exactly to the bottom of the sustainability question that was front and foremost in our minds as we developed the policy internally. We reviewed it with the agencies and we reviewed it with our Board. We started with a power stress, and that was built on a sustained \$3 gas environment throughout the curve. Importantly it stressed power as well. So it was not just an expression of view exclusively on gas, but also an expression on stress heat rates and power out the curve.

We didn't stop there. So in addition to that, as you mentioned in your question around retail margins, we looked at certain business stresses, so to the extent that we had certain business pressures, whether that was from a margin perspective, whether that was from an operational O&M perspective or other elements within the regulatory environment, we looked at those stresses as well in addition to and on top of the power price stress.

And then we looked at certain one-time events or significant events and attributed a dollar stress against that as well, looking to sustain for simplicity 27% or better FFO to debt metric in all stressed environments. So to the extent that we're unsuccessful with the like-kind exchange or there are other exogenous events like [ph] FFO (36:43) that aren't currently contemplated in our business plan that we're north of that 27% FFO to debt in all circumstances. And so on the basis of those stresses that I think we can say with great confidence that this is a very sustainable dividend level and it's the right dividend level.

Kenneth W. Cornew

Chief Commercial Officer & Executive VP, Exelon Corp.

A

And Jonathan, I'd just add to that, natural gas stressed to \$3, that's a forward curve stress. And we hit power prices even much harder than what we saw in August of last summer in our stress scenarios. But we obviously have a hedging program that limits our risk to spot market prices. Jack talked about one-time shocks. We looked at scenarios that stressed or shocked our new business targets on the commercial side, so we have done a rigorous and thorough analysis of this.

I would like to remind everyone, we don't have [ph] your average (37:46) assets. We have nuclear assets that run at high capacity factors and create substantial margin even in stress situations. We have a lot of contracted renewables. We have a well-positioned hedge and cost-based portfolio that obviously we had to look at when coming up with our dividend policy.

On retail margins, I would say and reiterate exactly what Jack was saying in his opening remarks. We have seen margins get to that low end of the \$2 to \$4 range we talked about. It is a hyper-competitive market right now. There is a lot of activity to grab market share in both mass markets and commercial/industrial space. We remain disciplined. Our plan and our hedge disclosure projects that we'll be in this environment for some time and slowly creep back up to the middle of that range.

Jonathan P. Arnold

Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. Could I follow up just on the heat rate gas discussion?

Christopher M. Crane

President and Chief Executive Officer, Exelon Corp.

Sure.

A

Jonathan P. Arnold

Analyst, Deutsche Bank Securities, Inc.

The question – it sounds like what you're talking about is you stressed gas and heat rates in a way that maybe they haven't been stressed at the same time in recent experience in the forward curve. Is that correct? Because obviously when power prices were low last summer, gas prices were low and heat rates actually weren't that low. So am I understanding that right, that you've sort of assumed both bad things happen at the same time in a way that generally doesn't happen?

Q

Kenneth W. Cornew

Chief Commercial Officer & Executive VP, Exelon Corp.

You are, Jonathan. And that's what I meant by we stressed those power prices beyond that August price situation we saw in the forwards. But you're right, heat rates were a little higher because they're going to move up when natural gas drops to extremely low levels. So we really hit heat rates and gas at the same time in our stress analysis. And again, we also shocked with just some time event stresses as well.

A

Jonathan P. Arnold

Analyst, Deutsche Bank Securities, Inc.

Okay. Thank you.

Q

Operator: Your next question comes from the line of Brian Chin.

Jonathan W. Thayer

Executive Vice President and Chief Financial Officer, Exelon Corp.

Hi, Brian.

A

Brian James Chin

Analyst, Citigroup Global Markets Inc. (Broker)

Hi, good morning.

Q

Christopher M. Crane

President and Chief Executive Officer, Exelon Corp.

Good morning.

A

Brian James Chin

Analyst, Citigroup Global Markets Inc. (Broker)

I just wanted to ask – I'd like to ask one more follow-up on the retail margin question. In the past you've signaled that you thought at the back end of your gross margin forecast retail margin levels would get up to somewhere in the mid single digits, roughly around the \$5 per megawatt hour range. Did you adjust that downwards in the back end of the gross margin outlook and to what extent?

Q

Kenneth W. Cornew*Chief Commercial Officer & Executive VP, Exelon Corp.*

A

Well, Brian, I'll speak for the past year in which we've come together as a company. We've been in the \$2 to \$4 range and we have projected growth in our business based on getting more market share and volume and seeing new customers come to market. But we have dropped our projections of margin based on what we're seeing in the market. We have to remain disciplined in that way. And we're being disciplined about how low we'll go on margins. So to that extent, it's going to impact our volumes as well. So I don't think we are up at that \$5 range. We are in the \$2 to \$4 range and, as I said previously, thinking lower end and in the next couple of years moving to the middle of that range in 2015 and beyond.

Brian James Chin*Analyst, Citigroup Global Markets Inc. (Broker)*

Q

Great. Thanks. And then one last question on this. Did you change your retail volume assumptions as well versus past disclosures? And to what extent did you change them if you did?

Kenneth W. Cornew*Chief Commercial Officer & Executive VP, Exelon Corp.*

A

So we did release retail volume assumptions at our original Analyst Day last year. We revised them at EEI and we'll continue to provide you, once a year, a volume projection on the retail side. Obviously from a quarter-to-quarter perspective, we continue to look at what we're actually executing, what we expect to execute based on the margins and the environment, and put that in our hedge disclosure.

Brian James Chin*Analyst, Citigroup Global Markets Inc. (Broker)*

Q

So then should I presume that since we have not gotten a volume update since EEI that the volume disclosures given at EEI are the ones that are included in this margin outlook? Gross margin outlook?

Kenneth W. Cornew*Chief Commercial Officer & Executive VP, Exelon Corp.*

A

You shouldn't assume that. As I said, we do update internally our volume assumptions. I would say we probably softened those volumes a little bit, but there's a long way to go this year in the buying season for retail. So we'll just keep you updated quarter to quarter on that in the hedge disclosure.

Brian James Chin*Analyst, Citigroup Global Markets Inc. (Broker)*

Q

Appreciate it. Thank you.

Operator: Your next question comes from the line of Hugh Wynne.

Hugh de Neufville Wynne*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Hey. The retail supply business is one of supplying shaped full requirements of product and in a competitive environment and it's not without risk, as Gexa and others demonstrated in Texas a couple summers ago. At a \$2 margin, which you think might persist for several quarters, in a very competitive environment where there's going to be a temptation to win contracts at low prices, do you feel that you're being compensated for the risk that you're taking? And if not, is there any adjustment to your longer-term strategy?

Kenneth W. Cornew*Chief Commercial Officer & Executive VP, Exelon Corp.*

A

So Hugh, when we talk about our margins in retail business, we already build up a cost base that prices the risk you're talking about. And clearly as we've seen this steady decline in power markets, the separation between supply and demand, low volatility, there's potentially in the market an expectation that that risk is lower than we think it otherwise could be, particularly as you see units retire and volatility start to come in the peak seasons again. So we price that risk how we see it going forward with our models, our projections, and understand how the market's pricing it. And we remain disciplined and focused on top of that. To the extent our competitors aren't doing that, there could be more risk in what they're selling.

Christopher M. Crane*President and Chief Executive Officer, Exelon Corp.*

A

Cover the optionality of the portfolio management, too.

Kenneth W. Cornew*Chief Commercial Officer & Executive VP, Exelon Corp.*

A

You know, and our portfolio is second to none in terms of its capability to handle this kind of obligation, this load-serving business. We have substantial base load power, as you know, but we also have substantial intermediate and peaking assets that we quite frankly love to monetize in this load following product. The value of those assets is their capability to follow load and demand and deal with volatility in the marketplace. And to the extent we can't get that kind of pricing in the wholesale market and more simple product structures, we like to sell it from a load perspective, and we are getting margin on top of that in our retail business. So this retail business and that product is very important to us and we think we're very good at managing it.

Hugh de Neufville Wynne*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Great. Thanks. That's very helpful.

Operator: Your next question comes from the line of Jay Dobson.

Christopher M. Crane*President and Chief Executive Officer, Exelon Corp.*

A

Hi, Jay.

Jay L. Dobson*Analyst, Wunderlich Securities, Inc.*

Q

Maybe a question for Jack, but it will probably fall to Ken as well. As you looked at the stress case, and I understand that was probably just a discrete point in time that you looked at it, as you looked at the overall portfolio, what did those stress levels indicate for sort of individual assets? And I guess I'm thinking more about the nuclear side, but maybe across the portfolio. And I guess explicitly what I'm asking is, did it appear to put any assets at risk of retirement from economic bases if in fact that stress case persisted for some period of time?

Christopher M. Crane*President and Chief Executive Officer, Exelon Corp.*

A

This is Chris. The evaluation was done on a fleet basis, not an asset basis. It was a bottom-up on a fleet basis. And again, in that stress case, it's a low probability, but that's why we call it the stress case. To address the question

behind the question, we continue to believe that our assets are some of the lowest cost, most dispatchable base load assets and don't have any plans at this point of early shutdown on them.

We'll continue to do an annual valuation on our assets and if we see continued degradation or if we saw issues where subsidized generation's continuing to cause us a problem, overdevelopment of wind is causing us a problem, surely we would have to take actions. But we do not see that at this point. We continue to fight all initiatives that put them at risk and we'll be outspoken on that, like the PTC, or the issues that are driving us to want to do the MOPR, or individual states thinking that creating jobs is a good thing by developing subsidized generation when it could have the effect eventually of shutting down one of these plants. But nothing that we see today would drive us to do that unless we see further degradation.

Jay L. Dobson

Analyst, Wunderlich Securities, Inc.

Q

Hey, that's great. Thanks, Chris. And I guess the other side of that then, you talked a little bit about growth if in fact the environment improves. Maybe outline for us sort of what that environment has to look like for you to start deploying more of that growth capital away from some of these contracted renewables and regulated investments in your portfolio.

Christopher M. Crane

President and Chief Executive Officer, Exelon Corp.

A

We need to see that \$3 to \$5 coming into the market, which for us is about \$1 billion in gross margin. That's a sure enough signal to say that the market's coming back, load growth's coming back or the market's tightening and we would want to take on those investments that potentially have a period of dilution, but we can have a level of certainty of their contribution to earnings and free cash flow over the investment period. So that's how we're looking at it right now.

Jay L. Dobson

Analyst, Wunderlich Securities, Inc.

Q

Hey, great. Thanks so much for the answers.

Operator: Your next question comes from the line of Michael Lapidès.

Michael J. Lapidès

Analyst, Goldman Sachs & Co.

Q

Hey, guys. Two questions, one high-level, one maybe a little detailed, high-level question. When you look out, and just trying to think about earnings, right, because that tends to be what drives stocks and drives sectors, at what point do you see a positive turn in earnings? Meaning at what point do you think you grow again from just an earnings perspective? That's the first question. Second question, when you look at the planning parameters as well as the deficiency notice regarding MOPR that came out this week, just high-level views thinking about the PJM auctions?

Christopher M. Crane

President and Chief Executive Officer, Exelon Corp.

A

Let me get Jack to handle the first part, and Joe Dominguez, who's in our Washington office, will cover the second part.

Jonathan W. Thayer*Executive Vice President and Chief Financial Officer, Exelon Corp.*

A

So, Michael, the answer to your question is highly dependent on what we do with the available cash flow for – excess cash flow for redeployment. Obviously in the first couple of years, we have a number of maturities on the bond side that we would look to potentially retire. And that's an element of our strengthening of the balance sheet using the incremental proceeds from reducing the dividend to shore up that balance sheet I think creates a long-term sustainable basis on which to invest for growth. And that's probably more of a 2013, 2014 phenomenon.

We are creating though \$700 million-plus of incremental cash flow available for redeployment. And as we've discussed, depending on the circumstances, we can redeploy that in any number of ways. How we redeploy that is going to have a significant impact on when we turn the corner on earnings. Obviously if we're getting the \$3 to \$5 that Chris discussed, that too will have a material impact given our sensitivity to power prices in that outer part of the curve as well. So I think there's a lot of reasons for optimism around earnings growth based both on investment but also long-term exposure to power prices.

And then as Chris mentioned, there is the opportunity to perfect the regulatory environments in certain of our jurisdictions. Certainly we're pursuing those activities in Illinois in the ComEd territory. We have a rate case that should conclude here shortly in Maryland. And a lot of positive steps have been made with regard to improving the dialogue with the commission there and with the state. And I think we have a lot of opportunity on that side as well as transmission investments to really grow the contracted and regulated elements of our business.

So I guess to sum it up, it's not just the opportunity to grow earnings, but also the visibility and multiples associated with those earnings that ultimately are going to translate into value for the shareholders you assist.

Christopher M. Crane*President and Chief Executive Officer, Exelon Corp.*

A

Joe, you want to cover the second half?

Joseph Dominguez*SVP-Public Policy, Government & Regulatory Affairs, Exelon Corp.*

A

Yes. Sure, Chris. I'm going to start off with the MOPR discussion and probably lean on Ken a little bit to talk a little bit about the planning parameters and what our expectations are for RPM. We were obviously expecting a decision this week from FERC. And we did not get one. We got the deficiency letter instead, which had some questions that really go to the heart, I think, of this new MOPR that has been proposed by PJM.

We still see a pathway to a resolution of that case before the auction. We've had a number of conversations with stakeholders and with PJM. We think the questions that FERC has asked are going to be answered relatively quickly. I don't have a timeframe for that, but I think you're going to see a fairly timely response by PJM. And as I said, I think we remain on a pathway to getting an answer before the auction. And we remain of the view that the revised MOPR will be approved by FERC.

Now quite obviously, we had hoped to have that well in advance, and I think we may see over the next couple of months this bifurcated process where PJM moves forward with the existing tariff and also plans for the revised tariff. That complicates their life. But I don't see anything about the deficiency letter as changing the path forward. And as I said, continue to see that being decided before the auction. Ken?

Kenneth W. Cornew*Chief Commercial Officer & Executive VP, Exelon Corp.*

A

So, Michael, there are a lot of things that drive, obviously, what RPM results are. And they can move in different directions. I would say from a demand response perspective, we saw constructive bidding behavior last year. I would expect to see that again. New generation-wise, there could be some new generation. And Joe mentioned the MOPR issue. But we would expect that potentially there is some new generation that shows up. Energy efficiency probably might actually go down, because it's now related in the load forecast after a certain amount of time. And from a planning parameter perspective, what was most interesting to us is we do see the parameters indicating more constraint in the eastern zones and the constrained capacity zones, except for ATC. We saw a little less constraint in the ATC zone. So this auction, from my perspective, is kind of a plus minus from the last auction.

Michael J. Lapidès*Analyst, Goldman Sachs & Co.*

Q

Got it. Okay. And finally, and this one's really for Chris. In some of your points you talked about wanting to grow some of the contracted businesses. I think you pointed out the regulated side. You pointed out renewables or other contracted assets. How does the M&A factor into that?

Christopher M. Crane*President and Chief Executive Officer, Exelon Corp.*

A

We always are looking for opportunities. And we would be open to a future opportunity. Our number one priority is completing the integration of our last merger. And we should be, from the IT system side, pretty well complete by the end of the year on a single platform, not only in Jack's area in the financials, but in Ken's area in the trading area. And when we know we've got everything managed right, we could do another one if something came along. But the day-to-day focus is on the organic growth.

Michael J. Lapidès*Analyst, Goldman Sachs & Co.*

Q

Got it. Okay. Thanks, guys. Much appreciated.

Operator: Your next question comes from the line of Julien Dumoulin-Smith.

Julien Dumoulin-Smith*Analyst, UBS Securities LLC*

Q

Hi. Good morning.

Christopher M. Crane*President and Chief Executive Officer, Exelon Corp.*

A

Good morning.

Julien Dumoulin-Smith*Analyst, UBS Securities LLC*

Q

Hey. First, a little bit of a follow-up on the free cash flow generation and sort of the flexibility you have. I'd just be curious, how much flexibility would you be willing to use kind of status quo as we stand today? I mean you talked about \$700 million before, but if I read between the lines, that was versus the prior dividend, if you will. So how much today, if you will? And specifically what I was curious – you've discussed before retail and the need to backstop that potentially with more peaking assets. I'd be curious, given sort of your updated retail thoughts, do

you still anticipate perhaps pursuing further peaking assets to backstop those opportunities? Or at this point would that be a little bit off the table given updated volume expectations, et cetera?

Christopher M. Crane

President and Chief Executive Officer, Exelon Corp.

A

Let me cover the second half of the question and I'll have Jack go back to the first. The portfolio right now that we have is matching – the generation assets is matching the portfolio needs. Besides the Texas market, you really don't see any need in the marketplace to be developing any new assets. And we would probably look at a peaker if it came on the market, but it would have to go through the hurdles that I talked about earlier. And the portfolio folks would have to buy in if they could add value with it. So you wouldn't put it off forever, but just don't see the conditions right now driving us to build or buy peaking assets. Jack, you want to?

Jonathan W. Thayer

Executive Vice President and Chief Financial Officer, Exelon Corp.

A

Sure. So, Julien, if I understand your question, obviously we'll be paying out at the current level the dividend for the first quarter. So there's about a \$550 million improvement in cash flow in 2013 and that grows to \$700 million on a full year basis throughout. What my comments were really specific to was the incremental capacity that's created from that reduction in the dividends payout rate. And to the extent, in the early years, we're using that to retire existing debts as it matures, and those in and of themselves can be highly accretive. As an example, we have a hybrid that matures in 2013 and we will be retiring that. That's a, Stacie, an 8.625% coupon? So obviously relative to today's current interest rate environment, that's obviously a very sad day for those holders, a very positive day for us.

But to the extent that we utilize the opportunity to retire debt in the early part, strengthen the balance sheet and then turn that \$700 million of excess cash capacity, as Chris mentioned, towards organic opportunities internally, whether that be investment in renewables, investment in utilities or investment in other areas of the company, then we do believe that that should be a meaningful driver of earnings growth throughout the five-year plan.

Julien Dumoulin-Smith

Analyst, UBS Securities LLC

Q

Great. Just a quick follow-up. I mean, you talk about deploying cash a little bit more aggressively once you see the 3% to 5% or 3% to 6% upside. I'd be curious – we've heard some changes of late or potential changes in Illinois, state-specific standards. Does that change the timing at all when you think about when you get this upside or is it very much predicated on [ph] max (59:18) 2015 kind of happening?

Jonathan W. Thayer

Executive Vice President and Chief Financial Officer, Exelon Corp.

A

I think at this point I'd say while we believe that upside will materialize, it's not currently baked into our long-range plans. To the extent it does, obviously that's incremental cash flow to redeploy, as Chris mentioned, and given that that would signal a rationalization of the merchant power market, could that orient towards merchant investments as Chris discussed? That's an opportunity. But I think fair to say, we have a lot of optionality around where we deploy our excess capital, as Chris mentioned in his remarks. We're in a broad array of the value chain within this sector. And we look at a lot of opportunities and we're very selective and value-oriented and have a good track record of investing at above hurdle rates and driving real free cash flow and earnings growth. So I think we're quite excited by that opportunity.

Julien Dumoulin-Smith

Analyst, UBS Securities LLC

Great. Congrats.

Q

Ravi Ganti

Vice President, Investor Relations, Exelon Corp.

Operator, that brings us to the end of the call. I think we are not taking any more questions at this point.

Christopher M. Crane

President and Chief Executive Officer, Exelon Corp.

Okay. Thanks, everybody, for joining the call. Any questions, you can get a hold of Ravi. He'll be glad to fill in any blanks. Thank you.

Operator: Ladies and gentlemen, this does conclude today's conference call. You may now disconnect.

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