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DTE Energy Co. (DTE)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the DTE Energy Third Quarter 2024 Earnings Conference Call. All participants are in a listen-only mode. After the speakers' remarks, we will have a question-and-answer session. [Operator Instructions] As a reminder, this conference call is being recorded.

I would now like to turn the call over to Matt Krupinski, Director of Investor Relations. Thank you. Please go ahead.

Matthew Krupinski

Director-Investor Relations, DTE Energy Co.

Thank you and good morning, everyone. Before we get started, I'd like to remind you to read the Safe Harbor statement on page 2 of the presentation, including the reference to forward-looking statements. Our presentation also includes references to operating earnings, which is a non-GAAP financial measure. Please refer to the reconciliation of GAAP earnings to operating earnings provided in the appendix.

With us this morning are Jerry Norcia, Chairman and CEO; Joi Harris, President and COO; and Dave Ruud, Executive Vice President and CFO.

And now, I'll turn it over to Jerry to start our call this morning.

Gerardo Norcia

Chairman & Chief Executive Officer, DTE Energy Co.

Thanks, Matt. Good morning, everyone, and thanks for joining us. This morning, I'll discuss how we continue to deliver for our key stakeholders and highlight the successes we've had across all of our businesses this year. Joi will provide you with an update on our regulatory proceedings as we continue with our customer-focused investments to improve reliability and transition to cleaner generation while maintaining affordability for all our customers. And she will discuss the significant progress that we have made so far to further improve reliability as we build the grid of the future. And Dave will provide a financial update and wrap things up before we take your questions.

So, let me start on slide 4. We're having a very strong year so far in 2024, giving us confidence that we will deliver on our 2024 operating EPS guidance. As I said on our previous call, we were also positioning ourselves to deliver strong results in 2025 and beyond. We remain confident that our plan will deliver a long-term EPS growth rate of 6% to 8%, support a healthy balance sheet with strong cash flows and minimal equity issuances, and continue our commitment to deliver affordable energy to our customers.

Our long-term growth is driven by the required capital investments in reliability and clean generation that we need to make for our customers. And these investments are supported by the recent independent audit of our electric distribution system, which I'll talk about more shortly; Michigan energy legislation, which continues to push the pace of decarbonization and deployment of renewables; and by infrastructure recovery mechanisms at both of our utilities.

As we continue to ramp up a solid 2024 and finalize multiple regulatory proceedings, we are updating our five-year plan and we'll provide the details of that plan on our year end call. This plan will continue to support these

customer-focused investments in grid reliability and cleaner generation as we advance our capital investments to support these initiatives. I am excited about the opportunities we have in front of us and look forward to sharing the details of our long-term plan on the year end call.

As I said, we are having a successful year in 2024 and our success is the result of our team's focus on all of our stakeholders, including our customers, our communities, and our investors. Our team continues to consistently deliver as a result of our strong culture. We were recently informed by the Gallup organization that our employee engagement ranks in the 94 percentile globally among thousands of organizations. As I've said before, our high level of employee engagement is our secret sauce at DTE for continued success.

DTE was also recognized as a best place to work for disability inclusion, receiving a top score of 100 on the Disability Equality Index, the world's most comprehensive benchmarking tool for large companies to measure disability inclusion inside their organization. This award was a tremendous honor, complementing our recognition with the Best Employers Award for Excellence in Health and Well-being, which I mentioned last quarter.

Our highly engaged team remains focused on delivering excellent service to our customers as we advance toward our goal of restoring service to all customers within 48 hours after a storm. In August, our service territory was impacted by an extreme weather event that included wind gusts that reached over 75 miles per hour. As a result of the extensive improvements we are making to our system and processes, we restored nearly 65% of our customers in 24 hours, which is the highest one-day restoration in company history for a storm of this size. And nearly 95% of our customers were restored within 48 hours. I extend our sincere gratitude to our teams who worked tirelessly to get the lights back on for our customers.

We also faced extreme heat this summer as temperatures climbed over 90 degrees for an extended period. Our system held up well in these conditions, but I'm very proud of our team's efforts to take care of those most vulnerable customers as they experience this heat. Our energy efficiency program was able to assist low-income customers by installing nearly 1,000 free air conditioner units to those in most need across metro Detroit to keep them cool.

Moving on to our communities, we take pride in supporting the communities where we live and serve. While being best for the world is always part of our company's aspiration, every August we lean in even more to give back to the communities. During this year's Month of Caring, DTE team members made a difference across the state as they helped out at food pantries, cleaning up parks, and many other volunteer events. Our employees spent 5,000 hours giving back to our communities.

I would also like to take a moment to commend and appreciate the 500 contract line workers and tree trimmers along with 100 DTE line workers who went south to help with the hurricane relief. In the last few weeks, Hurricane Helene and Hurricane Milton hit Florida's Gulf Coast and then flooded several southern states with drenching rain. Millions were without power, and I'm glad our team was able to assist others in need. As a matter of fact, I received 20 letters from elementary school students in Georgia that really were very grateful for the work that our team did in Georgia. So, thank you again to our team for doing something extraordinarily positive in Georgia.

And for our investors, we are in a really great position to deliver on our earnings target this year and are well-positioned for the future. Our long-term operating EPS growth rate remains at 6% to 8%, with 2023 original guidance as the base for this growth. And this solid financial strength and our constructive regulatory environment allows us to continue to invest above our generated cash flows for improved reliability and cleaner generation. As I mentioned, we will provide our typical forward-looking disclosures on the 2024 year-end earnings call. Our

updated plan will reaffirm our commitment to deliver premium shareholder returns that our investors have come to expect.

Let's turn to slide 5 to highlight some of the achievements across our portfolio. We are achieving success and progressing on key initiatives across the company. We are progressing toward constructive outcomes for our rate cases at both DTE Gas and DTE Electric. While there is still work to do to ensure the outcomes do not put pressure on our near term ability to complete our customer-focused investments, we believe these outcomes will ultimately support the investments in grid reliability and cleaner generation that we need to make on behalf of our customers. And we are expecting these constructive outcomes in November for DTE Gas and January for DTE Electric.

Additionally, we received the final report from the independent audit of our electric distribution system as directed by the Michigan Public Service Commission. We really appreciated working with the independent audit team over the last year and we appreciate the insights and recommendations to further improve our system. Joi will go over some of the key items from the audit, but one key takeaway is the confirmation that our proposed investment plan is what is needed to achieve the significant reliability improvements that we have committed to over the next five years, which is reducing power outages by 30% and cutting outage time in half by 2029.

We are continuing to progress on these investments and reliability improvements this year, and our customers are seeing the benefits of this work. As I mentioned, we had one of our most effective storm restorations in our company's history in August, demonstrating that our efforts to improve processes and automate the grid are working. Joi will provide some detail on our progress in this area, but I'll just say that we are making great progress on all aspects of our plan as we transition to a smarter grid, update existing infrastructure, rebuild the older sections of the grid, and continue our significant tree trimming efforts.

We are also making significant progress in our renewables buildout at DTE Electric. Last month, we broke ground on three new solar parks and have three additional solar parks currently under construction. Together, these projects will add 800 megawatts to our renewable portfolio, which is enough to power more than 220,000 homes. And each project is supporting our MIGreenPower voluntary renewable program, which continues to grow with 2,500 megawatts now subscribed and nearly 100,000 residential customer subscriptions.

And at DTE Gas, we continue to progress on our gas main renewal program this year as we modernize the gas transmission system and our distribution system.

And finally, at DTE Vantage, we are advancing a number of custom energy solutions, RNG, and carbon capture and sequestration projects. We highlighted the project at Ford Motor Company earlier this year to support Ford's new plant in Tennessee. This project is underpinned by a long-term fixed fee contract and is scheduled to go into full operation this November. We also began construction on an RNG project that is expected to go into service by the end of the year.

Now, I'll turn it over to Joi to give some highlights on our regulatory front and reliability improvements. Joi, over to you.

Joi M. Harris

President & Chief Operating Officer, DTE Energy Co.

Thanks, Jerry, and good morning, everyone. I'm excited to discuss the progress we are making to continue to improve system reliability for our customers. As you know, an important part of this journey is the progression of our regulatory proceeding, which supports these investments and helps us gain alignment on the investments

required to build the grid of the future and transition to cleaner generation. There are several regulatory proceedings we are currently working, including general rate cases at both of our utilities. We continue to progress toward constructive outcomes in these cases.

At DTE Gas, our rate case filings support the important investments necessary to continue to renew our gas infrastructure, which will further minimize leaks, reduce carbon emissions, and lower cost. We are very close to finalizing this case with an order expected in the coming weeks. Our electric rate case outlines the customer focused investments we need to make to build a smarter, stronger and more resilient electric grid, and to progress further our transition to cleaner generation. This filing underpins the next important step in our long-term investment plan, while maintaining affordability for our customers.

The filing includes a request to extend and expand the infrastructure recovery mechanism that was approved in the previous rate order. Modeled after our DTE Gas IRM, the DTE Electric IRM allows us to recover the cost of investments in the grid infrastructure between rate cases. Our objective is to work with the commission to grow the IRM over time to help stretch the time between electric rate cases as it does for DTE Gas. We expect the final order on the electric case in January.

As Jerry mentioned, we did receive the report on our electric distribution system from the independent auditor that the commission appointed. From the start, we have appreciated the commission's decision to engage a consulting firm in this process to help all parties gain a further understanding of our electric distribution system and identify opportunities for improvement. We view the audit results as constructive and supportive of our capital plan to deliver on reliability commitments for our customers, highlighting the need for strategic investment in our distribution system to deliver on these improvements.

The audit confirmed that our proposed investment plan will deliver the dramatic improvements and reliability that we have committed to our customers over the next five years to reduce power outages by 30% and cutting outage time in half by 2029, which is also consistent with the customer service standards set for us by the MPSC. We expect to file a formal response on the audit through the regulatory process in November and look forward to incorporating key findings from the audit into our investment strategy going forward.

Let's move to slide 7 to highlight the impact of our reliability improvement efforts on enhancing the customer experience. We continue to make strategic investments and process improvements to enhance our system and improve the customer experience. Jerry mentioned our response to the August storm resulted in the highest one-day restoration for a storm of this size, made possible by the investments we are making to fully automate and improve our grid.

Through the implementation of smart grid technology, DTE has prevented more than 9,000 power interruptions and avoided over 3.6 million outage minutes through the third quarter of this year. And we also remain focused on tree trimming efforts as this has proven to be one of the most effective methods for improving reliability. Trees account for half the time our customers are without power. And in areas where tree trimming is up to date, customers experience significant improvement in reliability. We have trimmed nearly 40,000 miles of trees since 2015 as we move to an enhanced, more aggressive standard. And we expect to have our entire system on a five-year tree trim cycle by the end of next year.

So, as you can see, we continue to make progress in improving reliability, which keeps us on the path to reduce power outages by 30% and cutting outage time in half by 2029. Of course, as we continue to invest in our system, we remain very focused on maintaining customer affordability, using our distinctive continuous improvement culture to drive cost management and savings for our customers. Including the recovery of capital costs in our

current electric rate case and the estimated power supply cost savings for our customers in 2025, the projected average annual growth of our residential electric bill will be just over 1% from 2021 through 2025 compared to the national average annual increase of close to 6%. This is distinctive in our industry that we were able to invest over \$6 billion in our distribution system in the last five years and have one of the industry's lowest bill increases. Our performance versus other states over the last three years is highlighted on slide 13.

Affordability goals are also supported by our diverse energy mix, helping to reduce fuel costs and allowing us to maintain flexibility to adapt to future technology investment. Our long-standing continuous improvement culture also continues to deliver for our customers in the form of lower bills.

And finally, our transition to renewable energy is supported by federal tax credits included in the IRA. These tax credits are passed on to our customers, which helps us continue to achieve customer affordability goals.

With that, I'll turn it over to Dave to give you a financial update.

David Ruud

Chief Financial Officer & Executive Vice President, DTE Energy Co.

Thanks, Joi, and good morning, everyone. Let me start on slide 8 to review our third quarter financial results. Operating earnings for the quarter were \$460 million. This translates into \$2.22 per share. You can find the detailed breakdown of EPS by segment, including our reconciliation to GAAP reported earnings in the appendix. I'll start the discussion with our utilities.

DTE Electric earnings were \$437 million for the quarter. This is \$169 million higher than the third quarter of 2023. The main drivers of the earnings variance were implementation of base rates, warmer weather, lower storm expenses and timing of taxes, partially offset by higher rate base costs.

Moving on to DTE Gas, operating earnings were unfavorable \$8 million versus the third quarter last year, driven by higher rate base costs and a return to a more normalized O&M level. This was partially offset by increased revenue from the IRM.

Let's move to DTE Vantage on the third row. Operating earnings were \$33 million for the third quarter of 2024. This is a \$23-million decrease from 2023 due to a combination of some timing and onetime items in 2023, primarily in our RNG and steel related businesses. We remain highly confident in our full year guidance for Vantage as new projects continue to ramp up in the fourth quarter and provide both earnings and associated investment tax credits.

On next row, you can see Energy Trading finished the quarter with earnings of \$25 million. We continue to see strong performance in our contracted and hedged physical power and physical gas portfolios at this segment. Finally, Corporate and Other was favorable by \$30 million quarter-over-quarter, primarily due to the timing of taxes. This timing will reverse through the balance of the year and we expect to land within the current full year guidance range for this segment.

Overall, DTE earned \$2.22 per share in the third quarter. When you look across our portfolio of businesses, we are in a great position to achieve our full year operating EPS guidance in 2024, which at the midpoint provides 7% growth over the 2023 original guidance midpoint. And we continue to position ourselves to deliver strong results in 2025 and beyond.

Let's move to slide 9 to highlight our strong balance sheet and credit profile. Our significant customer-focused investment is supported by our strong cash from operations. Due to our strong cash flows, we have minimal equity issuances in our plan as we are targeting annual issuances of \$0 to \$100 million through 2026. Our long-term financial plan incorporates debt refinancing and new issuances to fund our capital investment plan and is consistent with our 6% to 8% operating EPS growth target. We have largely executed our 2024 financing plan at interest rates consistent with our plan, including reducing refinancing risk by successfully pre-funding the fourth quarter debt maturities at the parent company. We continue to focus on maintaining our strong investment grade credit rating and solid balance sheet metrics as we target an FFO to debt ratio of 15% to 16%.

Let me wrap up on slide 10 and then we will open the line for questions. Our team remains focused on our commitment to deliver for all our stakeholders. We continue to invest heavily within our utilities to improve reliability and move toward cleaner generation. Our robust capital plan supports our customers as we execute on these critical investments while focusing on customer affordability. DTE is well positioned to serve increased load as opportunities for new load continue to solidify in our service territory.

The 2024 operating EPS guidance midpoint provides 7% growth over the 2023 original guidance midpoint, and we continue to target long-term operating EPS growth of 6% to 8%. As Jerry mentioned, we will provide the details of our long-term plan on our year-end earnings call. We remain well-positioned to deliver the premium total shareholder returns that our investors have come to expect with a strong balance sheet that supports our future capital investment plan. We look forward to seeing many of you at EEI in a couple of weeks.

And with that, I thank you for joining us today. And we can open the line for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Shar Pourreza from Guggenheim Partners. Please go ahead. Your line is open.

Shahriar Pourreza

Analyst, Guggenheim Securities LLC

Hey, guys. Good morning.

Q

Gerardo Norcia

Chairman & Chief Executive Officer, DTE Energy Co.

Good morning, Shar.

A

David Ruud

Chief Financial Officer & Executive Vice President, DTE Energy Co.

Hey, Shar.

A

Joi M. Harris

President & Chief Operating Officer, DTE Energy Co.

Good morning.

A

Shahriar Pourreza

Analyst, Guggenheim Securities LLC

Q

Good morning, Jerry. Good morning, guys. Just obviously congrats on the quarter. Just appreciate that the financial update is moving to the 4Q print, but you kind of removed that reference to the \$25-billion CapEx plan. Can you maybe just talk about what you're seeing in terms of system needs that could prompt a reconsideration? Any generation needs pulling forward at this stage? And I don't want to front run the Q4 update, but just a sense there would be super helpful. Thanks.

Gerardo Norcia

Chairman & Chief Executive Officer, DTE Energy Co.

A

That's a good question, Shar. And what we're seeing, I'll take it by the two major components. Generation, we are seeing opportunity there for incremental investment, and that's primarily driven by the fact that we have forecasted to subscribe 2,500 megawatts of voluntary renewables over the next four years and we already filled the queue. So, we're seeing continued investment opportunity with our voluntary program.

And also as we update, the plan – generation plan for the clean energy legislation that was passed last year, we're also seeing opportunity there as well. And with the report – independent audit report on our distribution system, we do see some opportunity there. And when you bring that all together, I think there will be an overall incremental opportunity to invest. And we'll update that at our year-end earnings call.

Shahriar Pourreza

Analyst, Guggenheim Securities LLC

Q

Got it. And, Jerry, just on the storm and resiliency audits. It sounded like the plan is the plan to meet that sort of target of cutting the outages in half by 2029. But it sounds like you still need some additional spending there as well as a result of the storm and resiliency audit, is that correct?

Gerardo Norcia

Chairman & Chief Executive Officer, DTE Energy Co.

A

We do see incremental opportunity. But, Joi, you may want to add to that.

Joi M. Harris

President & Chief Operating Officer, DTE Energy Co.

A

Yeah. Yeah. Yeah. Shar, the results really serve as confirmation of our five-year plan to deliver on those reliability commitments. And those commitments align with the service quality standards set by the MPSC. So, the plan noted that our GDP – or our Distribution Grid Plan is really aggressive and ambitious, and we accept that challenge. And we've demonstrated that we have the execution capability just given our track record over the last couple of years of ramping up our investments.

You've mentioned some of the key takeaways. And yes, that could help us reprioritize some of our capital plans. But generally, the findings support our overall levels that we've laid out. But there were some noted increases in certain areas like pole top maintenance that we're taking into account. But we're really being mindful of affordability and we've chosen to highlight that in the presentation. When you look on page 13, it just shows that we have been able to stay below the national average in terms of overall bills and bill growth. So, that's what we are using as our governor, and we've proven that we've done it in an effective manner.

Shahriar Pourreza

Analyst, Guggenheim Securities LLC

Q

Got it. Perfect. And then just lastly on just the funding needs, I mean, it sounds like there's some upside bias to that \$25 billion. And obviously you've got a very strong balance sheet. You talked about minimal equity needs between \$0 to \$100-million range. Do you envision that changes when you roll forward your plan? Do you have the balance sheet capacity to take on the incremental CapEx? Or could there be some incremental funding needs? Thanks.

David Ruud

Chief Financial Officer & Executive Vice President, DTE Energy Co.

A

Hey, Shar. This is Dave. Yeah, we do plan to update all that on the fourth quarter call and we'll get into that more. In our current plan, you saw we have \$0 to \$100 million of equity through these next three years. And we don't anticipate that changing through that period. We'll update more on the out years. Again, we have great cash flow generation. The IRA continue to support our capital investments. So, we're confident we'll have the capital plan that can support that to.

Shahriar Pourreza

Analyst, Guggenheim Securities LLC

Q

Okay. I think that sort of answered it. I appreciate it, guys. See you in a couple of weeks.

Gerardo Norcia

Chairman & Chief Executive Officer, DTE Energy Co.

A

Thank you.

Operator: Our next question comes from Durgesh Chopra from Evercore ISI. Please go ahead. Your line is open.

Durgesh Chopra

Analyst, Evercore Group LLC

Q

Hey, team. Good morning. Thank you for taking my question. Just...

Gerardo Norcia

Chairman & Chief Executive Officer, DTE Energy Co.

A

Good morning.

Durgesh Chopra

Analyst, Evercore Group LLC

Q

Hey, good morning, Jerry, Dave, and Joi. Just maybe can you help us year-to-date? It feels like you're materially ahead of your plan, especially when I kind of think about Q3 of last year and do my walk to Q4 – I'm sorry, Q4 of 2023 to Q4 of 2024. Maybe just help us think through what are the puts and takes in Q4 as we think about hitting midpoint of your guidance. Are you moving some cost over from 2025 into 2024? Just thinking about how much progress you've made year-to-date versus you reaffirming midpoint of your guidance range.

David Ruud

Chief Financial Officer & Executive Vice President, DTE Energy Co.

A

Yeah, sure, Durgesh. I'll take that. I'll start by saying you're right, it's a good quarter and we're doing well relative to last year. And the big driver of that is electric, which as you remember last year we were – have some storms and weather that were impacting us. And this year we have some additional margin. So, you can see our electric is doing better. Also, like kind of versus expectations – your expectations, trading is doing well, too. We're at \$61 million year-to-date versus our guidance of \$35 million for the year. So, that is providing some favorability.

I will say – we talked about the timing of taxes. There is timing of taxes at corporate that we know will reverse at the end of the year. And there's some a little bit in electric, too. So, that comes down. But overall, we are expecting to have a good year. And as you mentioned, we are using that to position ourselves to make sure we continue to have a good year in 2025 as well. Did I answer your question, Durgesh?

Durgesh Chopra

Analyst, Evercore Group LLC

Q

It does. That's helpful. Thank you. Thank you, David. Maybe just a quick follow up. Can you update us on the performance-based rulemaking docket? What are the decisions – sorry, what are the discussions looking like there? Thank you.

Joi M. Harris

President & Chief Operating Officer, DTE Energy Co.

A

Yes, Durgesh, the – essentially the commission has prepared their final [indiscernible] (00:38:01). It includes the seven metrics. We're happy with the metrics. These are metrics that we use to measure ourselves against already. We continue to press for symmetry in how the incentives and disincentives will be applied. As it stands now, we've provided in our remarks and there's no official end date to this docket, but we know that it will not be incorporated into the existing rate case that's currently underway. So, we await response from the commission, and we'll continue to work with them on finalizing PBR.

Durgesh Chopra

Analyst, Evercore Group LLC

Q

That's helpful. Thank you for your time.

Operator: Our next question comes from Jeremy Tonet from JPMorgan. Please go ahead. Your line is open.

Jeremy Tonet

Analyst, JPMorgan Securities LLC

Q

Hi. Good morning.

Gerardo Norcia

Chairman & Chief Executive Officer, DTE Energy Co.

A

Good morning.

David Ruud

Chief Financial Officer & Executive Vice President, DTE Energy Co.

A

Hey, Jeremy.

Jeremy Tonet

Analyst, JPMorgan Securities LLC

Q

Hey. I just wanted to start of Vantage side if I could. Just wondering if you might be able to talk a bit more on the RNG customer solutions there and I guess maybe a bit more on the carbon capture side as well, I guess, how you see the timeline of that progressing.

David Ruud

Chief Financial Officer & Executive Vice President, DTE Energy Co.

A

Yeah, we continue to have a really nice pipeline in all of those areas that we have some projects. We mentioned we have an RNG project coming online this year. We have some conversion opportunities there that we continue to work. The Custom Energy Solutions as supported by the IRA has given us some good opportunities in that business too. So, we talked about the Ford project that's coming online, and we see a good pipeline with other industrials throughout as well. And then CCS, those are – as we mentioned, those are some smaller projects, just continuing to advance them with some onsite – some onsite CCS that we'll be doing and hope to be able to update more throughout next year.

Jeremy Tonet

Analyst, JPMorgan Securities LLC

Q

Got it. That's helpful. Thanks. And as you think about potential upside to utility CapEx over time given some of the items you talked about before, how do you think about portfolio rotation in this segment to help fund some of that if needed?

Gerardo Norcia

Chairman & Chief Executive Officer, DTE Energy Co.

A

Yeah, we're certainly – as we see upside and in utility capital, we'll continue to manage how much we invest and what earnings we expect from Vantage. So, we do see greater emphasis on utility capital in the future.

Jeremy Tonet

Analyst, JPMorgan Securities LLC

Q

Got it. That makes sense. That's it for me. Thanks.

Operator: Our next question comes from Nick Campanella from Barclays. Please go ahead. Your line is open.

Nicholas Campanella

Analyst, Barclays Capital, Inc.

Q

Hey, good morning. Hope everyone's doing well.

David Ruud

Chief Financial Officer & Executive Vice President, DTE Energy Co.

A

Hey, Nick

Nicholas Campanella

Analyst, Barclays Capital, Inc.

Q

Hey, how are you? I just wanted to ask, as we kind of think about the roll forward, how are you kind of thinking about your load growth? I know it's kind of been roughly flattish, but we are seeing a lot of peers kind of take up their load ambitions. And maybe you could also kind of talk about the status of the data center bill and the ability to get that passed this year. Thank you.

Gerardo Norcia

Chairman & Chief Executive Officer, DTE Energy Co.

A

Well, our plan at this point, Nick, forecast, is essentially flat demand growth in our five-year plan. And we haven't closed any arrangements with data centers, but we have a lot of interest. And in terms of legislation, what we're seeing and what we did see in the – before the summer recess is that the sales and use tax, the used tax portion of the bill passed the House. As you recall, it's already through the Senate. We're just waiting for the House to finish its work. And we do have some commitment that it'll be taken up in the lame duck session here after the election. And the governor has continued to indicate that if it gets to her desk, she will sign it.

So, we feel pretty good about that. And that's something that the hyperscalers need, like the very large data center operators that we're talking to. The aggregators already have a sales and use tax exemption and we're also talking to them. And so, our perspective is that at some point here we will start to connect data center load and we do have some capacity to offer, and that'll be extremely beneficial to our customers and extremely beneficial to affordability, which will help us drive more affordability into the plan, if you will.

Nicholas Campanella

Analyst, Barclays Capital, Inc.

Q

Hey, that's helpful. I appreciate that. And then I guess just to check in on the electric case quickly, is it still kind of the base case here that you take this to full distance and we shouldn't be expecting a settlement? I just wanted to get a quick update there. And that's it for me. Thanks.

Joi M. Harris

President & Chief Operating Officer, DTE Energy Co.

A

Yeah. Staff position is constructive. It'll put some pressure on our near term capital plans that we'll work through. But just given the sheer number of interveners, I think we're up to 28 interveners. There's really a low probability of settlement at this point, but we believe we can still get a constructive outcome, and we'll know definitively in January.

Nicholas Campanella

Analyst, Barclays Capital, Inc.

Q

All right. See you at EEI. Thank you.

Gerardo Norcia

Chairman & Chief Executive Officer, DTE Energy Co.

A

Thank you.

Operator: Our next question comes from David Arcaro from Morgan Stanley. Please go ahead. Your line is open.

David Arcaro

Analyst, Morgan Stanley & Co. LLC

Q

Hey, good morning. Thanks for taking my questions.

Gerardo Norcia

Chairman & Chief Executive Officer, DTE Energy Co.

A

Good morning.

Joi M. Harris

President & Chief Operating Officer, DTE Energy Co.

A

Good morning.

David Arcaro

Analyst, Morgan Stanley & Co. LLC

Q

Let me see, maybe on the gas rate case side of things. Reflecting on the ALJ recommendation in that case, ROE was lower than we would have thought. And just wondering, has there been any change from your perspective in the backdrop in terms of maybe the commission's perspective on gas rates and affordability and returns?

Joi M. Harris

President & Chief Operating Officer, DTE Energy Co.

A

Yeah, if you look at the staff's position after the ALJ's testimony, their exceptions were right in line with their initial testimony. So, we feel – and which was constructive. So, we feel really good about where we stand with the gas rate case, and we'll know definitively in the next couple of weeks. And I think we mentioned before that this was a new ALJ and in the electric rate case there is no ALJ. So, David, we'll know in about two weeks where we stand and staff was very supportive of, all of the capital that we have in the gas rate case as well.

David Arcaro

Analyst, Morgan Stanley & Co. LLC

Q

Yeah. Got you, absolutely. That makes sense. Thanks. And then, maybe just on voluntary renewables, how has the momentum been in that program? Where could you see that going maybe from the 2,500 megawatts that you have currently subscribed?

Gerardo Norcia

Chairman & Chief Executive Officer, DTE Energy Co.

A

We'll update that at the year-end call, but certainly it will be higher than 2,500 megawatts. I always say that I can't seem to put a high enough target on that team. They've always exceeded expectations. So, we have 2,500 megawatts forecasted for the next four years, and that order book has been full – filled I should say. And we still see significant opportunity. So, more to come on that.

David Arcaro

Analyst, Morgan Stanley & Co. LLC

Q

Okay, great. Sounds good. We'll wait for that in 4Q. I appreciate it. Thanks so much.

Operator: Our next question comes from Julien Dumoulin-Smith from Jefferies. Please go ahead. Your line is open.

Julien Dumoulin-Smith

Analyst, Jefferies LLC

Q

Excellent. Hey, good morning, team. Thank you, guys, very much.

Gerardo Norcia

Chairman & Chief Executive Officer, DTE Energy Co.

Good morning.

A

Julien Dumoulin-Smith

Analyst, Jefferies LLC

Maybe following up on Nick's question super quickly here, just in terms of implications here. I mean, how much of an inflection do you think [indiscernible] (00:45:41) lame duck success here on the use tax – sales use tax is successful here would you expect or is that more of a longer dated opportunity? I mean, just to go back to what you said a second ago, Jerry. You have obviously near term capacity availability here. Just want to understand the timing and the progress you're having in those conversations in parallel.

Q

Gerardo Norcia

Chairman & Chief Executive Officer, DTE Energy Co.

Sure. So, available capacity, as I mentioned in the past, is less than 1,000 megawatts. So, it's in the hundreds of megawatts. And we would look to secure that in the near term, near term being over the next 12 months as – and that – some of that will be independent of sales and use tax exemption passing and some with the large hyperscalers will need that sales and use tax exemption, which we expect to be dealt with this fall.

A

And by the way, that was all very bipartisan, which is also encouraging that that bill passed the Senate in a high partisan way and half the bill passed in a high bipartisan way as well. So, we expect the other half of this bill in the House to move along before the end of the year. But, yeah, we expect the hundreds of megawatts to be placed, what I would say, in a relatively near term. And then there are thousands of megawatts being discussed, but I think that'll be a longer dated option in the sense that it will require capacity builds in our generation fleet.

Julien Dumoulin-Smith

Analyst, Jefferies LLC

Excellent. And thank you. And then maybe pivoting to the IRM here. I mean, it's a pretty meaningful chunk of the overall ask here if you think about it. How do you think about the cadence of rate cases [indiscernible] (00:47:14) that you don't get the full infrastructure recovery after? How do you think about that? I mean, obviously, there's a clear ask in the left hand given the audit report and the pressure to improve metrics here. I mean, just – I know it's a little bit of a rock and a hard place, but how do you think about that conversation and the potential for [indiscernible] (00:47:33) here?

Q

Joi M. Harris

President & Chief Operating Officer, DTE Energy Co.

Well, I think as staff testimony, they essentially held to the current levels for the IRM. I think going forward, they will rely on the audit results, which we have already said are positive and support our capital plan. I think we would have to grow the IRM to significant levels. It would have to be, call it, \$1 billion before we would even be able to stay out of a rate case for a period of time. But that's what we're campaigning for. And I think the audit results kind of help us make the case that an IRM would be helpful for us and helpful for customers.

A

Gerardo Norcia

Chairman & Chief Executive Officer, DTE Energy Co.

Yeah. And I think, Julien, that we may see probably not significant movement in this rate case, but in – we're getting signals that as this audit lands and gets sort of adopted and finalized in our planning process along with

A

the commission's understanding of how we should move forward, we do see a willingness to grow the IRM so that we can reduce the frequency of rate cases. So, I think it'll take – like we mentioned this past year, it'll take several more rate cases before we get to a level where we can put some time between these rate cases, which I think everybody wants.

Julien Dumoulin-Smith

Analyst, Jefferies LLC

Q

Yeah, indeed. And it's good to hear that you've got some line of sight in conversations there. All right. Excellent, guys, thank you very much. And see you soon. Appreciate it.

Gerardo Norcia

Chairman & Chief Executive Officer, DTE Energy Co.

A

Thank you, Julien.

Operator: Our next question comes from Michael Sullivan from Wolfe Research. Please go ahead. Your line is open.

Michael P. Sullivan

Analyst, Wolfe Research LLC

Q

Hey, everyone. Good morning.

Gerardo Norcia

Chairman & Chief Executive Officer, DTE Energy Co.

A

Good morning.

Michael P. Sullivan

Analyst, Wolfe Research LLC

Q

Hey, just picking up on that last question in terms of rate case cadence and obviously you made the decision to hold off on the long-term refresh with two cases pending. I guess, how should we think about that going forward since you're going to continually be in rate cases? Or will you ultimately get back to your prior timeline of Q3? Is it going to shift to more Q4 going forward? Or is this kind of a moving target depending on cases being pending at any given time?

David Ruud

Chief Financial Officer & Executive Vice President, DTE Energy Co.

A

Hey, Michael. It's Dave, if I may. I think we'll see how things play out in the future and kind of decide on that going forward. We do know that we're going to have to keep going in for rate cases, but we remain confident that we're going to get the capital investment that we need from these rate cases to support our growth going forward, too. But we'll continue – we'll update that as we go forward.

Michael P. Sullivan

Analyst, Wolfe Research LLC

Q

Okay. And then just shifting over to the year-to-date strength in the trading, Dave. I think you mentioned you're already ahead of the full year guide. Is there some reversal that you're expecting in Q4? Or is that strength going to continue? And maybe just looking out into next year, what are you seeing for that segment?

David Ruud

Chief Financial Officer & Executive Vice President, DTE Energy Co.

A

Yeah, you're right. We are off to a really good start this year. Like I said, we're at \$61 million versus our guidance of \$35 million. And I will say this performance is based on contracted and hedged positions in our physical gas portfolio and our gas portfolio. So, we don't see a big reversal coming in the fourth quarter or anything that should change that dramatically.

We look forward- we'll, again, as we said a few times in this call, update a lot on the fourth quarter call and give you some better looks. But we look at some of these power contracts, they are one to three-year contracts that we've done through this FRS, and they have higher margins than we had seen before. So, we do see some reason for optimism in this business going forward too.

Michael P. Sullivan

Analyst, Wolfe Research LLC

Q

Okay, great. And then last one just quickly, I think someone had mentioned just trying to think about the drivers upcoming for Q4. So, if trading is going to remain strong or at least there's no reversal coming, can you just remind us in terms of the kind of onetime cost cutting that you did a year ago, whether any of that showed up in Q4 and would be potentially reversing this year?

David Ruud

Chief Financial Officer & Executive Vice President, DTE Energy Co.

A

Yeah. We did – if you remember last year, we were no holds barred on our O&M, and so some of those costs have come back into this year relative to last year. If you take away the storm costs we had last year, some of that does come in. And then I will say, gas has been faced with some tough weather this year. You'll see in the appendix that it's almost \$50 million of weather. We've made up some of that. But we're working that to try to – but it'll be challenging to have that within the range too. So, that'll play into fourth quarter. But, again, we're seeing a strong year this year and expect it to be a good year and find ways that we can continue to support 2025 through that too.

Michael P. Sullivan

Analyst, Wolfe Research LLC

Q

Great. Thanks a lot, Dave.

Operator: Our next question comes from Paul Fremont from Ladenburg. Please go ahead. Your line is open.

Paul Fremont

Analyst, Ladenburg Thalmann & Co., Inc.

Q

Great. Thanks. When I look at the 45Z tax credits that are expected next year, would you expect that that would put your non-regulated business contribution above your targeted range for – at least over the course of the next several years?

David Ruud

Chief Financial Officer & Executive Vice President, DTE Energy Co.

A

Yeah, I'll probably go back to that same answer I've given a couple of times. But when we do give our update on the fourth quarter, we'll go into all this. These 45Zs, which are tax credit – production tax credit for our RNG business, they are a favorable thing that will come into 2025 through 2027. I will say when we gave our 2028

growth that we knew that wasn't going to be in there and we were still confident in our 6% to 8%. But it's favorable, give us better confidence and some flexibility in hitting the earnings over those few years, hitting our EPS growth over those few years. And we will give more updates on that on the fourth quarter call as well, Paul.

Paul Fremont

Analyst, Ladenburg Thalmann & Co., Inc.

Q

And I mean, in terms of those percentage targets, I mean, would you be willing to sort of allow that to be higher than the targeted range because of the temporary nature of the 45Z contributions?

David Ruud

Chief Financial Officer & Executive Vice President, DTE Energy Co.

A

Yeah. We will update on all that on the fourth quarter call. We're trying not to give guidance piecemeal through the year and try to give it all at once when we give our full year guidance across all of our businesses. So, we'll update that fully on the fourth quarter call.

Paul Fremont

Analyst, Ladenburg Thalmann & Co., Inc.

Q

Great. And I guess my last question is if you did the same type of number you did on the fourth quarter, it would put you way above sort of your guidance range. So, should we at least assume that right now you're tracking at least towards the higher end of your guidance range for this year?

David Ruud

Chief Financial Officer & Executive Vice President, DTE Energy Co.

A

We expect to come in with within our guidance range. We are also looking to support 2025 how we can. And again, there's some timing of tax issues – not issue, but timing of taxes that will reverse in corporate, a little bit in electric, but that will, you know, kind of bring us within those ranges as well.

Paul Fremont

Analyst, Ladenburg Thalmann & Co., Inc.

Q

Great. Thank you very much.

Operator: Our next question comes from Bill Appicelli from UBS. Please go ahead. Your line is open.

William James Appicelli

Analyst, UBS Securities LLC

Q

Hi. Good morning. Just a couple of questions on the year end numbers here too. Can you quantify the impact of the tax timing items?

David Ruud

Chief Financial Officer & Executive Vice President, DTE Energy Co.

A

Yeah, there's a little bit at electric and corporate, and together they're about \$40 million.

William James Appicelli

Analyst, UBS Securities LLC

Q

Okay. And then on Vantage year-to-date, the \$55 million looks like they're implying about an \$80-million step up in Q4. Is that still on track?

David Ruud

Chief Financial Officer & Executive Vice President, DTE Energy Co.

Yes. Yes, that's still on track.

A

William James Appicelli

Analyst, UBS Securities LLC

Okay. So, the development of those projects going into service and so forth is – there's no issues there?

Q

David Ruud

Chief Financial Officer & Executive Vice President, DTE Energy Co.

No, the big one going in is the Ford one that Jerry was talking about in the call, where we're doing the central energy plant for the BlueOval City project at Ford in their Tennessee facility. And there's three – some of that already is in service. And there's three large systems that will come into service within the fourth quarter that'll drive the – both the income and the social investment tax credits in the quarter.

A

William James Appicelli

Analyst, UBS Securities LLC

Okay. And then on the potential for increase in large load, I mean, is there any kind of sensitivity you can provide if we think about – if you're assuming relatively flat but there's potential for upside on that as the legislation comes through or additional economic development starts to materialize, is there a sensitivity we can think about for large C&I from an earnings perspective?

Q

Gerardo Norcia

Chairman & Chief Executive Officer, DTE Energy Co.

Well, I think what we'll do is we'll use the incremental margin to support our affordability initiatives. I think there will be an opportunity as we land this load to accelerate our capital plans without putting bill pressure on our customers. So, I think that's how we will use the incremental margin.

A

We're probably not in a position to size that yet because it's very early in the contract discussions with some of the potential data centers that are looking to locate here in Michigan. But that's how it would be deployed. It would be deployed as an affordability play and in turn, that would create headroom for us to invest against. We've got a massive backlog in our distribution business. We are looking to invest \$9 billion over the next five years, but we could easily accelerate that. And that type of margin attachment could enable that acceleration without creating bill pressure growth.

William James Appicelli

Analyst, UBS Securities LLC

Okay. And then lastly, I mean, do you have an existing tariff structure in place that you think is adequate? Or would that need to be reviewed in context of additional large load?

Q

Gerardo Norcia

Chairman & Chief Executive Officer, DTE Energy Co.

A

So, for the existing capacity, we've got an existing tariff that we think will work quite well. For the long-dated capacity additions that could come from this opportunity, we would have to design a tailored tariff that would look at ensuring that we brought in enough margin and also for a long enough term that we wouldn't create any type of stranded asset situation for existing customers.

William James Appicelli

Analyst, UBS Securities LLC

Q

Right. Okay, great. That's it for me. Thank you.

Operator: Our next question comes from Sophie Karp from KeyBanc. Please go ahead. Your line is open.

Sophie Karp

Analyst, KeyBanc Capital Markets, Inc.

Q

Hi. Good morning. Thank you for taking my question.

Gerardo Norcia

Chairman & Chief Executive Officer, DTE Energy Co.

A

Good morning.

Sophie Karp

Analyst, KeyBanc Capital Markets, Inc.

Q

Good morning. A lot of my questions have been answered. I just wanted to ask you on the potential various capital that's going to come from incorporating the results of the storm audit into your future capital plan. And I think when we read the reports, right, one of the concerns that the consultants had in that case was the ambitiousness of your goals, if you will, right, and the potential impact on bills – customer bills. And I was wondering if you see any need for sort of other mechanisms of setting this potential increases, right, to moderate those customer bill increases, maybe it's the storm securitization costs that needed or something else that you might need to kind of go ahead with that plan and keep the customer rate growth sort of slow. Or do you think you can accomplish that within the existing rate structure? Thank you.

Gerardo Norcia

Chairman & Chief Executive Officer, DTE Energy Co.

A

So, I would say that our five-year capital plan anticipates the capital that we need to achieve this ambitious plan of reducing the frequency by 30% and the duration by 50%. Obviously, the audit didn't really get deep into how our affordability plans and our financials will work through all of this. It's more of a physical condition audit and recommendations.

And interestingly enough, on the face value, the audit would put pressure to increase the capital overall into our distribution business. But – so, we feel very confident in achieving our affordability goals. And as Joi pointed out, like on page 13 of our presentation, you'll see that we've had – even though we've invested over \$6 billion over the last five years, we've managed our costs and manage our fuel portfolio. And also the renewable assets are putting downward pressure on bills, and we're extraordinary in how we're performing in that regard. So, we continue – we remain confident we can continue to deliver that extraordinary performance on affordability.

Sophie Karp

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. So, no need for any new structural and new mechanisms in your view right now?

Gerardo Norcia

Chairman & Chief Executive Officer, DTE Energy Co.

We don't anticipate any at this point in time.

A

Sophie Karp

Analyst, KeyBanc Capital Markets, Inc.

Yeah. Okay. And then maybe if I can ask you on Vantage, right? I don't know if that's – are there opportunities in that business to take advantage of the kind of growth in the large load of customers? I'm not sure if that's kind of like the right fit for that business, but are you seeing any potential strategic opportunities there?

Q

Gerardo Norcia

Chairman & Chief Executive Officer, DTE Energy Co.

We are having those conversations. I mean, if you think about the business line that – where we – in the Custom Energy Solutions business line where we provide co-generation assets, generation assets, as well as other, what I would call, central plant energy services like air and water and cooling and heating, there are opportunities for that. And we're having those conversations with potential data center customers.

A

Sophie Karp

Analyst, KeyBanc Capital Markets, Inc.

Terrific. Thank you.

Q

Operator: Our last question will come from Travis Miller from Morningstar. Please go ahead. Your line is open.

Travis Miller

Analyst, Morningstar, Inc. (Research)

Good morning, everyone. Thank you.

Q

Gerardo Norcia

Chairman & Chief Executive Officer, DTE Energy Co.

Good morning.

A

Travis Miller

Analyst, Morningstar, Inc. (Research)

Hey, just to wrap up a couple of things on the audit. After you filed the response, what do you see as the pathway for this? Is this something that closes? Or is this something that is going to perhaps last long, maybe even come up with some metrics you have to meet over years? What's your view on the pathway there?

Q

Joi M. Harris

President & Chief Operating Officer, DTE Energy Co.

Yeah, we'll file our responses in mid-November. And we are, you know, continuing to have conversations with the staff on the findings and looking at how we incorporate those findings into our plans. There really is no formal end to the process. I think the docket essentially closes with everyone providing their comments and then on a go

A

forward basis, anything that results of either discussions with staff I would anticipate will be incorporated in future regulatory proceedings.

Gerardo Norcia

Chairman & Chief Executive Officer, DTE Energy Co.

A

Yeah. The vehicle for that with the staff that works really well for us is that Distribution Grid Plan, which gets updated. And as Joi mentioned, I mean, we're meeting multiple times a week right now with staff to digest the results of the audit and start kind of building it into our Distribution Grid Plan, which will be a really, really good process supported by an independent audit to formulate and sort of secure our investments for the future, make it more secure in terms of predictability.

So, we're excited about the work and the level of engagement and effort that staff and our team is putting into fine-tuning the plan, if you will, to achieve the goals and also address some of the opportunities that the audit pointed out.

Travis Miller

Analyst, Morningstar, Inc. (Research)

Q

Sure.

Joi M. Harris

President & Chief Operating Officer, DTE Energy Co.

A

Yeah. It's a really collaborative process.

Gerardo Norcia

Chairman & Chief Executive Officer, DTE Energy Co.

A

High quality [indiscernible (01:03:54)]. Yeah.

Travis Miller

Analyst, Morningstar, Inc. (Research)

Q

And would you say just kind of on that whole idea of performance-based rates bringing in that docket, is that something the metrics are talking about, that could be an outcome of the audit, kind of tying those together?

Gerardo Norcia

Chairman & Chief Executive Officer, DTE Energy Co.

A

Well, there's no pre-specification in this docket to address performance-based rates, and that was not in the scope. But as you've heard already from Joi, there is a separate docket that deals with performance-based rates that will not be incorporated in this rate case. But there could be some potential that it gets incorporated in the next rate case. And we feel really good about the metrics are in there and we're striving for a little more symmetry. The amount that's in there is also reasonable.

So, it feels like it's moving in the right direction. It really does go to the heart of what we should be delivering for our customers, and I think it's going to be supported by investment. So, we feel like PBR will be highly supported by the investments that we're making. So, we're comfortable with the direction it's heading in.

Travis Miller

Analyst, Morningstar, Inc. (Research)

Q

Okay, great. And then real quick, any supply chain issues you're seeing in the renewable energy growth that you got?

Gerardo Norcia

Chairman & Chief Executive Officer, DTE Energy Co.

A

We're lined up pretty good for the next three years in terms of solar panels. And we've got that nailed down. So, we don't see any issues. Our battery plant project is well underway, and those systems are being fabricated as we speak. So, we feel like we got a good, good runway there from a supply chain perspective.

Travis Miller

Analyst, Morningstar, Inc. (Research)

Q

Okay, perfect. That's all I got. Thanks.

Gerardo Norcia

Chairman & Chief Executive Officer, DTE Energy Co.

A

Thank you.

Operator: We have no further questions. I would like to turn the call back over to Jerry Norcia for closing remarks.

Gerardo Norcia

Chairman & Chief Executive Officer, DTE Energy Co.

Well, thank you, everyone, for joining us today. I'll just close by saying we're feeling really good about 2024, as well as our position for future years. Look forward to seeing you at EEI in a few weeks and have a great morning. Stay healthy and safe.

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

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