S&P Global
Market Intelligence

Hawaiian Electric Industries, Inc. NYSE:HE

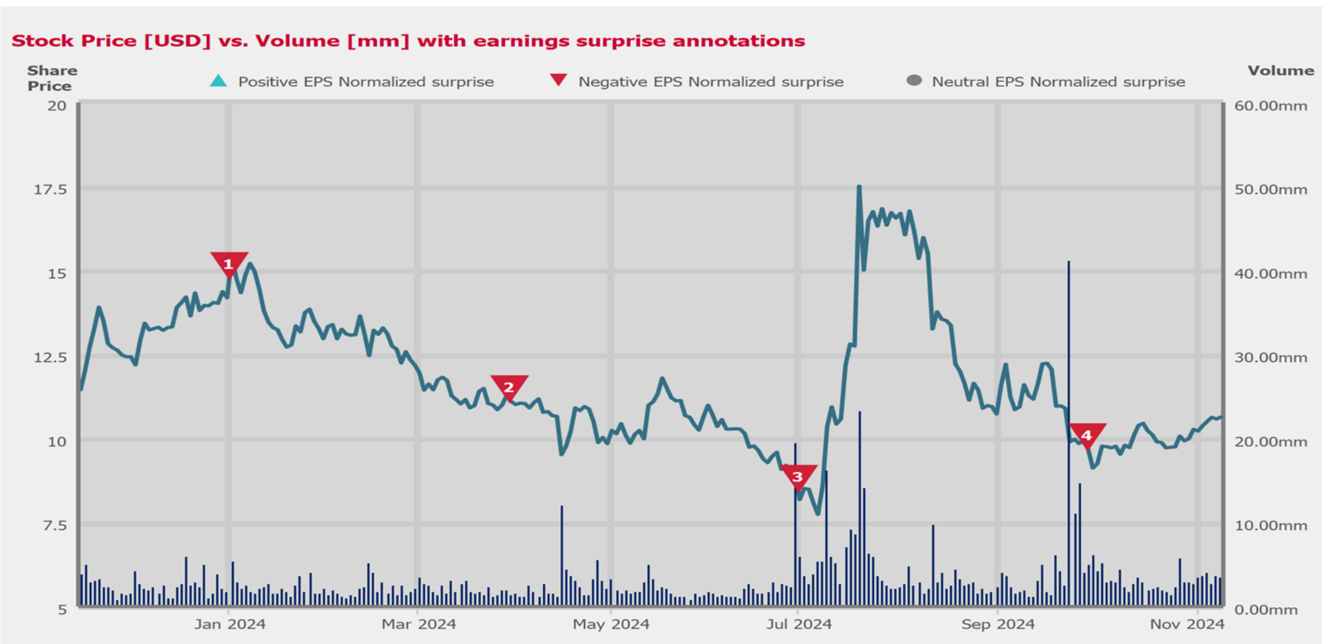
FQ3 2024 Earnings Call Transcripts

Friday, November 8, 2024 9:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2024-			-FQ4 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.52	0.46	(13.21 %)	0.31	1.63	NA
Revenue (mm)	NA	NA	NA	NA	3660.95	NA

Currency: USD
Consensus as of Nov-05-2024 10:15 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2023	0.49	0.48	1 (2.04 %)
FQ1 2024	0.54	0.38	2 (29.63 %)
FQ2 2024	0.49	0.44	3 (10.20 %)
FQ3 2024	0.52	0.46	4 (13.21 %)

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Call Participants

EXECUTIVES

Joseph P. Viola
Senior Vice President of Customer, Legal & Regulatory Affairs

Mateo Garcia
Director of Investor Relations

Paul K. Ito
Senior VP, CFO & Treasurer

Scott T. DeGhetto
Executive VP, CFO & Treasurer

Scott W. H. Seu
President, CEO & Director

ANALYSTS

Jonathan Garrett Reeder
Wells Fargo Securities, LLC, Research Division

Michael B. Lonegan
Evercore ISI Institutional Equities, Research Division

Presentation

Operator

Good afternoon. My name is Audra, and I will be your conference operator today. At this time, I would like to welcome everyone to the Third Quarter 2024 Hawaiian Electric Industries, Inc. Earnings Conference Call. Today's conference is being recorded. [Operator Instructions]

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

Mateo Garcia
Director of Investor Relations

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

Our earnings release and our presentation for this call are available on the Investor Relations section of our website. As a reminder, forward-looking statements will be made on today's call. Factors that could cause actual results to differ materially from expectations can be found in our presentation, our SEC filings and in the Investor Relations section of our website.

Today's presentation also includes references to non-GAAP financial measures. You should refer to the information contained in the slides accompanying today's presentation for definitional information and reconciliations of historical non-GAAP measures to the closest GAAP financial measure.

Now Scott Seu will begin with his remarks.

Scott W. H. Seu
President, CEO & Director

[Foreign Language] Welcome, everyone. For today's call, I'll start with key updates regarding the Maui wildfires and the definitive settlement agreement signed earlier this week. I'll then touch on updates at the utility, bank and Pacific Current before turning it over to Scott DeGhetto, who will walk through our third quarter financial results in more detail and discuss the financial implications of recent announcements. We'll then open it up for questions.

On November 5, we announced that HEI, Hawaiian Electric and other defendants entered into a definitive settlement agreement with plaintiffs in the Maui wildfire tort litigation. Finalizing the terms of this agreement is another important milestone in our efforts to offer those who suffered loss an accelerated path to recovery and regain the financial strength of our enterprise.

We're pleased to sign this final agreement just 3 months after reaching the initial term sheet agreement we discussed last quarter. We remain confident that this settlement represents the best outcome for our community and our company.

We're moving forward with a clearer line of sight toward resolution of the wildfire-related tort litigation and increased certainty for our company's path ahead. As previously announced, under the terms of the settlement agreement, HEI and Hawaiian Electric will contribute a total of $1.99 billion pretax which includes the $75 million we previously contributed to the One 'Ohana initiative. We expect to pay the settlement amount in 4 equal annual installments, with the first payment expected to be made in late 2025.

The settlement agreement is conditioned on a resolution of the claims of the insurance companies that have paid claims for property loss and other damages, with no additional payments from defendants. Over the last few months, important progress has been made toward resolving the insurer's claims.

On August 19, the Second Circuit Court on Maui, which is overseeing the Maui Wildfire tort litigation, issued an order requiring insurers to seek recovery according to Hawaii law, which requires them to assert liens against their policyholders' recoveries if their policyholders settle.

The Second Circuit Court subsequently requested the Hawaii Supreme Court to weigh in on the order. And on September 25, Hawaii Supreme Court agreed to review the Circuit Court's questions. Opening briefs in the State Supreme Court proceeding were filed earlier this week on November 4, and reply briefs are due December 16. After which the Hawaii Supreme Court is expected to rule.

We're hopeful that the Supreme Court will issue a ruling in favor of the individual plaintiffs, which would likely resolve the outstanding issue with insurers and bring us 1 step closer towards finalizing the settlement.

Many of the steps required to eventually receive judicial approval are happening concurrently with the Supreme Court process seeking resolution of the insurer claims. For example, the defendants and the class plaintiffs agreed to dismiss the consolidated class action case in federal court so that it could be refiled in state court and the class settlement could be effectuated in state court.

The final settlement agreement will become final after judicial review and approval is received, and other conditions laid out in the settlement agreement are met. Scott DeGhetto will discuss the accounting implications of our current expectations regarding the settlement agreement time line and financing plan.

Turning to operational updates. Over the past year, we've shared the immediate action plans the utility is prioritizing to address wildfire risks in the near term. These plans included implementation of a public safety power shutoff program or PSPS improving situational awareness through use of advanced technologies, implementing enhanced operational strategies and practices and hardening the grid to increase resilience.

The utility has rapidly advanced each of these priorities throughout 2024. On our last earnings call, we noted that the utility had officially launched its public safety power shutoff program or PSPS, on July 1. The high degree of coordination and communication required for the program to be successful has already been put to the test twice when we activated PSPS watches in September and October.

The utility carefully monitored weather conditions throughout the activations. And fortunately, it was not necessary to shut off power to customers. I'm pleased that the utility was able to effectively coordinate with public agencies, first responders, customers, and others through the PSPS watches.

Our utility will continue to work closely with key stakeholders to refine and enhance this new program to continuously make it more targeted and effective. The implementation of advanced technologies to improve situational awareness continues and the utility has now deployed 55 new weather stations and installed 39 AI-enhanced video cameras across its service territory.

Grid hardening work is also progressing, and the utility continues to make investments to upgrade poles, install covered conductors and strategically underground lines. Crews have inspected over 37,000 poles since the fall of 2023 across the highest risk circuits and have replaced approximately 2,200 poles. Technologies such as sparkless fuses, new lightning arresters and smart reclosers are also being implemented.

In addition to executing increased vegetation management and hazard tree removal efforts. Importantly, investments to harden the grid increased resilience for various environmental risks that we face in Hawaii, including hurricanes, floods, tsunamis and wildfires.

The utility will be filing a new and comprehensive wildfire mitigation plan within the next few months by January of 2025. Turning now to the bank. The bank's core operations and earnings remain strong as it continues to serve as a trusted financial partner to customers across Hawaii. In the third quarter, ASB continued to perform well. generating strong net income and profitability while continuing the net interest margin expansion we've seen throughout 2024 following last year's strategic balance sheet repositioning.

ASB has continued replacing higher cost sources of financing with cheaper sources of financing, and ASB's balance sheet is currently well positioned for a potential declining interest rate environment.

Economic indicators in Hawaii remain healthy, and the bank is seeing strong credit quality across its loan portfolio. The bank's loyal and long tenure deposit base remained stable. And as of September 30, 83% of deposits were FDIC insured or fully collateralized.

Lastly, I'll give a brief update on Pacific Current, before turning the call over to Scott DeGhetto. As we've discussed over the past year, HEI has been advancing a strategy designed to support a strong, financially healthy enterprise that will empower a thriving future for Hawaii.

Consistent with this approach, HEI has been undertaking a comprehensive review of strategic options for Pacific Current. There is no set timetable for the review, and there can be no assurances that any actions regarding Pacific Current will result from our evaluation.

In connection with this ongoing evaluation, we reported a noncash asset impairment charge for Pacific Current, which Scott DeGhetto will discuss. In summary, our operations remain strong across our companies and with a signed settlement agreement now in place, we're continuing to build on our significant progress to clarify HEI's path forward. As we look ahead, we'll continue to take prudent and measured actions to ensure our companies are well positioned to serve our customers and community for the long term.

With that, I will now turn the call over to Scott DeGhetto.

Scott T. DeGhetto
Executive VP, CFO & Treasurer

Thank you, Scott. I'll start with our results for the quarter on Slide 6. For the second quarter, we recorded a consolidated net loss of $104.4 million or $0.91 per share. The quarter's results included 2 significant onetime losses. First, at the utility, we recorded an additional $203 million pretax loss for the accrual of estimated wildfire liabilities from tort-related claims.

You'll recall in the second quarter of this year, we accrued $1.71 billion for estimated wildfire liabilities. The $1.71 billion accrual was our best estimate as of June 30, 2024, of an equivalent lump sum amount of the 4 annual installments stipulated in the settlement agreement in principle.

HEI now expects to make 4 annual payments of $478.8 million, totaling $1.92 billion, which is the $1.99 billion total agreed-to in the settlement plus the $75 million already contributed under the One 'Ohana initiative. Our revised expectations resulted in the additional $203 million accrual recorded in the third quarter.

Second, we also recorded a $35.2 million pretax asset impairment at Pacific Current in connection with the ongoing review of strategic options that Scott mentioned. Approximately $40 million of the $203 million settlement accrual made at the utility is expected to be offset with insurance proceeds. There were also $16.7 million of pretax wildfire-related expenses net of $8.6 million in deferrals recorded at the utility in the third quarter as well as $9.6 million in accrued insurance receivables in addition to the $40 million mentioned.

Excluding the impacts of these items, utility core net income was $43.7 million in the third quarter compared to $53.8 million in the same quarter of last year. Lower utility core net income was driven by higher O&M.

Bank wildfire-related pretax expenses were $900,000 and excluding the after-tax impact of these expenses, bank core net income was $19.4 million for the quarter compared to $17.6 million in the same quarter last year.

Bank core net income increased due to a lower provision for credit losses and higher noninterest income. The Pacific Current asset impairment was recorded at the holding company, which also recorded $4.7 million of pretax wildfire-related expenses net of $2.5 million of insurance recoveries. Excluding these items, the holding company core net loss was $10.9 million compared to $9.9 million in the same quarter last year, primarily due to higher holding company expenses.

Excluding enterprise wildfire expenses net of insurance recoveries and deferrals and excluding the Pacific Current asset impairment, HEI's core net income for the third quarter was $52.2 million compared to $61.5 million in the same quarter of last year.

Turning to our liquidity on Slide 7. As of the end of the third quarter, the holding company and the utility had approximately $678 million and $148 million of cash on hand, respectively. Holding company cash includes proceeds from our recent equity issuance. As previously announced, in September, we successfully closed on an offering of newly issued shares of common stock, resulting in approximately $558 million in net proceeds.

We intend to use the proceeds from our equity offering to fund our first settlement payment and for general corporate purposes. During the quarter, we also put in place an aftermarket equity issuance program that allows us to issue up to $250 million of common stock at our discretion.

We have not yet issued any equity under the ATM program but it provides an additional source of liquidity and flexibility. Last month, the utility received final approval from the Public Utilities Commission for their accounts receivable backed credit facility.

The $250 million facility had previously been approved to use for short-term financing needs, and this final approval allows the utility to use up to $100 million of the facility for long-term financing needs at any given time.

Lastly, I'm pleased to report that we have resolved the going concern issue disclosed last quarter. As Scott mentioned, under the final settlement agreement signed earlier this week, we will make 4 payments of $479 million to resolve the Maui wildfire tort litigation.

The first payment of approximately $479 million is anticipated to be made in late 2025 and is classified as a current liability. The remaining payments expected to be made over the next several years are classified as long-term liabilities.
Following the September common stock offering and other actions taken to address liquidity, sufficient cash is available to fund this current liability portion and we have concluded that the conditions that led to the substantial doubt regarding HEI's ability to continue as a going concern have been addressed. With that, let's open up the call to questions.

Question and Answer

Operator

[Operator Instructions] We'll go first to Michael Lonegan at Evercore ISI.

Michael B. Lonegan
Evercore ISI Institutional Equities, Research Division

So you announced the strategic review of Pacific Current. Obviously, it's a smaller scale asset no mention of the bank's strategic review. Just wondering if it's fair to say that's ongoing? And then also, would you be able to share the carrying cost of Pacific Current or the earning -- core earnings of it this quarter?

Scott W. H. Seu
President, CEO & Director

Mike, this is Scott Seu. Yes, I will confirm that we are still going through the strategic review for both the bank and of course, now with the Pacific Current. Let me pitch it over to Scott DeGhetto, in terms of addressing your -- the other part of your question.

Scott T. DeGhetto
Executive VP, CFO & Treasurer

Yes, Mike, could you just repeat the question in terms of what you're looking for on Pacific Current?

Michael B. Lonegan
Evercore ISI Institutional Equities, Research Division

Yes. So the carrying cost on your balance sheet or the core earnings that it delivered this quarter?

Scott T. DeGhetto
Executive VP, CFO & Treasurer

Yes. So we're not going to -- as we've said previously, Mike, when it comes to the review processes that we run for these assets, just like we've said in the past for ASB, same comment for Pacific Current. We're not going to comment any further until such time as we've made -- and the Board has made a determination that we feel it's relevant to continue to talk about it.

Michael B. Lonegan
Evercore ISI Institutional Equities, Research Division

Got it. And then secondly for me, so the opening briefs were filed with the Supreme Court, but wondering how you're feeling about the prospects that the settlements could be resolved through negotiation between the subrogating insurers and plaintiffs. Obviously, if the Supreme Court rules against the insurance companies that could set a bad precedent for them nationwide.

Scott W. H. Seu
President, CEO & Director

Yes. Mike, it's always possible that the individual plaintiffs and the subrogation plaintiffs could come to some sort of an agreement and -- a negotiated agreement. That would obviously be an acceleration of process perhaps. But we're not directly a part of any of these discussions. So that's about all I can say on that.

Michael B. Lonegan
Evercore ISI Institutional Equities, Research Division

Got it. And then you highlighted that you expect to pay the settlement in 4 installments, but the definitive settlement stipulate you can accelerate the payments. Is that something you're considering? Is there a scenario where you pay the settlement all upfront? Or are you committed to the 4-year time frame?

Scott T. DeGhetto
Executive VP, CFO & Treasurer

Yes. Right now, our -- we anticipate paying the settlement over the 4 installment period, Mike. We do have that option embedded in the settlement agreement, where if we decide to prepay, we have that ability at any given time, and there's a discount rate embedded in that settlement agreement, it's 5.5%. So again, that option is always available to us if we want to use it in the future.

Michael B. Lonegan
Evercore ISI Institutional Equities, Research Division

And then lastly for me. So on the PBR framework, -- if I recall correctly, it became effective in 2021. So you're coming up on the fourth year of the 5-year framework. So my understanding is the commission is going to conduct a review process in 2025 to review the framework.

Just that was part of the establishment of it to evaluate its course of action before its last year in '26. Just wondering, in light of the wildfire developments, all the development since, what are your thoughts heading into a review of that framework? What you see as risks or opportunities and what kind of steps you would be taking to prepare?

Scott W. H. Seu
President, CEO & Director

Yes. Mike, let me ask Joe Viola of the utility. Joe is our Senior Vice President. He oversees regulatory affairs, if Joe can comment on the response.

Joseph P. Viola
Senior Vice President of Customer, Legal & Regulatory Affairs

Sure. And in fact, the PBR comprehensive review is going on right now. So we've been meeting with the stakeholders in that group meeting with the commission staff to chart out the issues that we want to review and the commission will give all the parties, including Hawaiian Electric an opportunity to make suggestions on how the framework should be modified if it all goes forward.

So that process that the commission has set out as a multiyear process. The next multiyear rate plan is -- would be scheduled to begin on January 1, 2027. So everything that's happened during the in the 5 years of the first multiyear rate plan, including the Maui wildfires and all the implications of that will be considered in designing what the next multiyear rate plan should look like.

Operator

[Operator Instructions] We'll go next to Jonathan Reeder at Wells Fargo.

Jonathan Garrett Reeder
Wells Fargo Securities, LLC, Research Division

Just a couple of quick questions. I know you're limited what you can say on the other side, but were any of the terms of the definitive settlement agreement that was signed earlier this week materially different than the agreement in principles terms?

Scott W. H. Seu
President, CEO & Director

No. No, they were consistent.

Jonathan Garrett Reeder
Wells Fargo Securities, LLC, Research Division

Okay. And then I think you said in terms of the core utility income that the decrease was due to higher O&M. Was that the case? And I saw it was like a pretty substantial $10 million decrease.

Scott W. H. Seu
President, CEO & Director

Yes. Jonathan, let me ask Paul Ito, Hawaiian Electric's CFO to comment.

Paul K. Ito
Senior VP, CFO & Treasurer

Jonathan. Yes, there were higher O&M. Some of them were onetime items. Some of them were things like wildfire mitigation that we've been accelerating, for example, inspections. But in the quarter, we did report settlement administrative fee as part of the accrual for the quarter. It's limited. We also accrued costs related to the state settlement of indemnification claims. And then we also saw higher insurance premiums for property and general liability. So those are the main items that resulted in higher O&M for the quarter.

Jonathan Garrett Reeder
Wells Fargo Securities, LLC, Research Division

Okay. And so the onetime items, the administrative fees, stuff like that, like roughly how much [indiscernible] could be maybe a little more ongoing.

Paul K. Ito
Senior VP, CFO & Treasurer

Yes. The after tax of the settlement administration fee after tax is about $2.6 million the state indemnification claims is about the same amount, $2.6 million.

And those would be the ones that will be -- yes, more onetime in nature.

Operator

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

Scott W. H. Seu
President, CEO & Director

Yes. In closing, I just wanted to highlight again how we feel we've made substantial progress in the quarter. I'm very proud of the fact that we were able to reach the final settlement agreement in a fairly quick time frame after the August term sheet agreement.

I'm also very pleased that we are able to resolve the going concern issue that we disclosed last quarter. And above all, I think I just want to thank our shareholders, many of whom are our neighbors here in Hawaii for your continued investment in HEI.

I also want to thank those shareholders that supported our successful equity issuance in September. We really appreciate your support, and we continue to help our communities move forward to a sustainable future. So with that, thank you, everybody.

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