

# Press Releases



*Insight beyond the rating.*

Date of Release: February 9, 2016

## **DBRS Places Fortis Inc. Under Review - Negative After ITC Holdings Corp. Acquisition Announcement**

DBRS Limited (DBRS) has today placed the A (low) Issuer Rating, the A (low) Unsecured Debentures rating and the Pfd-2 (low) Preferred Shares rating of Fortis Inc. (Fortis or the Company) Under Review with Negative Implications. This action follows the announcement that the Company has agreed to acquire ITC Holdings Corp. (ITC) for a total consideration of approximately US\$11.3 billion, including the assumption of US\$4.4 billion of debt on closing (the Acquisition). The rating action reflects DBRS's view that the Acquisition will have a modestly positive impact on the Company's business risk profile but a negative impact on its financial risk profile. The Acquisition is expected to close in late 2016 and is subject to both Fortis and ITC shareholder approvals, as well as various regulatory and federal approvals.

Based on a preliminary review, DBRS views the Acquisition as modestly positive to Fortis's business risk profile. ITC, as an electricity transmission company operating in eight states, is fully regulated by the Federal Energy Regulatory Commission (FERC) and is allowed to earn above-average returns on investments based on a favourable equity component (60%) in the capital structure. DBRS notes that the allowed returns and capital structure are both higher than Fortis's current portfolio of regulated utilities. ITC's tariffs are also calculated under a cost-of-service methodology with an annual true-up mechanism, resulting in no volume risk, and provide ITC with stable and predictable earnings and cash flows. The Acquisition will additionally result in further geographic diversification for Fortis.

Fortis intends to fund the Acquisition by issuing approximately (1) US\$3.5 billion to US\$3.9 billion of equity, largely satisfied through the share consideration to be paid to ITC shareholders, (2) US\$2.0 billion of debt, and by (3) selling 15.0% to 19.9% of ITC to minority investors for approximately US\$1.0 billion to US\$1.4 billion. DBRS considers the current financing plan to be negative to the Company's non-consolidated financial risk profile. Based on DBRS's pro forma 2015 calculations, Fortis had a non-consolidated debt-to-capital ratio of approximately 21.9% and a non-consolidated cash flow-to-debt ratio of 21.4%. Based on the Company's proposed financing plan and DBRS's estimate of future dividends from the Acquisition assets to

Fortis, DBRS expects a significantly negative impact on the Company's non-consolidated metrics. As a result, DBRS believes that placing Fortis's ratings Under Review with Negative Implications is the appropriate rating action at this time.

DBRS will continue to review the final financing plan for the Acquisition and will resolve the Under Review rating action once the transaction closes. The Company's ratings could be downgraded by one notch if the non-consolidated debt-to-capital ratio following the Acquisition is materially over the 20% threshold and the non-consolidated cash flow-to-debt ratio is significantly below 20%.

Notes:

All figures are in U.S. dollars unless otherwise noted.

The related regulatory disclosures pursuant to the National Instrument 25-101 Designated Rating Organizations are hereby incorporated by reference and can be found by clicking on the link to the right under Related Research or by contacting us at [info@dbrs.com](mailto:info@dbrs.com).

The applicable methodologies are Rating Companies in the Regulated Electric, Natural Gas and Water Utilities Industry (October 2015), Rating Holding Companies and Their subsidiaries (January 2016) and Preferred Share and Hybrid Criteria for Corporate Issuers (January 2016), which can be found on our website under Methodologies.

This rating is endorsed by DBRS Ratings Limited for use in the European Union.

For more information on this credit or on this industry, visit [www.dbrs.com](http://www.dbrs.com) or contact us at [info@dbrs.com](mailto:info@dbrs.com).

## Ratings

Issuer	Debt Rated	Rating Action	Rating	Trend	Notes	Published	Issued
<a href="#">Fortis Inc.</a> Issuer Rating		UR-Neg.	A (low)	--		Feb 9, 2016	CA <a href="#">E</a>
<a href="#">Fortis Inc.</a> Unsecured Debentures		UR-Neg.	A (low)	--		Feb 9, 2016	CA <a href="#">E</a>
<a href="#">Fortis Inc.</a> Preferred Shares		UR-Neg.	Pfd-2 (low)	--		Feb 9, 2016	CA <a href="#">E</a>

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