



# **Project Scampi Discussion Materials**

**Initial Public Offering**

November 21, 2019

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## Executive Summary

- Today's discussion is focused on the issues and considerations involved in pursuing an initial public offering (an "IPO") of JEA as a first step for the City of Jacksonville (the "City") to dispose of some or all of its ownership of JEA in the public capital markets
- Pursuing an IPO would involve a number of trade-offs as compared to the current strategic sale process being pursued via the ITN
  - These trade-offs include value, process and timing considerations, and qualitative factors such as the potential for continued City / community influence in, or benefit from, a publicly listed company as compared to a 100% strategic sale
- An IPO is, as its name implies, simply the initial sale of shares in a company to investors in the public capital markets. IPOs are typically sized at between 20-30% of the total market capitalization of a company, so that the use of the public markets as a means to sell down 100% of the ownership in a business requires several subsequent sales, or "follow-on" offerings
  - There are numerous precedents from financial sponsors to suggest that over a period of roughly 2+ years or so from the time of the IPO, the remaining shares in JEA could be sold
- Given the fact that there are currently ~40 electric and water utilities publicly listed in the United States, there are plenty of data points to indicate how investors are likely to value JEA once its shares are "seasoned", or "fully distributed", in the market place
  - Investors would value JEA by comparing its financial and operational metrics, and the regulatory regime in Florida, to other publicly traded companies with similar characteristics (and of a similar size) – such peers are referred to as the comparable companies (the "Comparable Companies" or "Comps")
  - Publicly traded utilities typically pay out a substantial portion of their earnings in the form of dividends. Combined with the stability and predictability inherent in their regulated business model, utility stocks are viewed as bond-like proxies, or "yield" investments, that usually trade at higher valuations when interest rates are low, and lower valuations as interest rates rise
  - Publicly traded utilities are currently trading at all-time highs on an absolute basis and relative to broader market indices such as the S&P 500 primarily because of the current low interest rate environment
- While there are no examples of recent IPOs of a utility in the U.S. (as almost all of the companies in the utility sector have traded publicly for decades), there are numerous examples of other "yield-oriented" related entities that have gone through IPOs in recent years to suggest that the "IPO discount", the price concession required for the sale of the initial block of shares sold to the public, should be relatively modest relative to IPO discounts in more speculative industries such as technology or health care
  - For purposes of the discussion herein, we have assumed that an IPO would price at a ~5 - 10% discount to its fully distributed value as determined by reference to Comparable Companies

## Executive Summary (cont'd)

- Accordingly, the value that the City would realize from an IPO and subsequent follow-on offerings would represent the sum of (i) the IPO shares sold at an ~5 - 10% discount, and (ii) the value realized in a series of follow-on offerings, which would reflect the future trading levels of utilities generally and JEA's performance relative to the expectations outlined at the time of its IPO
  - This compares to a sale of JEA via a strategic process, where 100% of the proceeds are received at the time of the sale, and where buyers would likely ascribe a “control premium” of ~15 - 20% to the implied value of JEA by reference to its Comps
  - Thus, there is greater uncertainty to the City regarding the ultimate value realized from a capital markets sell-down vs. a strategic sale, and the receipt of proceeds would be staggered over a longer period of time
- Apart from the value trade-offs implied above, a public markets listing offers the chance to achieve several goals:
  - By transforming into a corporate form and having private sector investors, JEA would no longer be subject to the operational constraints inherent in government ownership, including no longer being subject to Florida's Sunshine Laws
  - Precedent exists for governments that are privatizing utility assets to retain certain special rights, often referred to as a “Golden Share”, that can proscribe the rights and obligations of the privatized entity, including:
    - Limiting the amount of shares that any single shareholder may own
    - Limiting the nationality of potential shareholders
    - Requiring that the corporate headquarters remain in the current jurisdiction
    - Providing for the nomination of one or more members of the Board of Directors by the government
    - Other “non-financial” objectives that may be deemed important to the selling government and its constituents
- Government privatizations of utilities in overseas jurisdictions have sometimes incorporated special allowances for residents or ratepayers to receive the chance to buy shares at a discount to the IPO price or otherwise receive special inducements to help with the transition from government to private ownership
- Pursuing an IPO would require resolving a number of legal issues, including:
  - How would JEA navigate the interplay between SEC “gun jumping” rules and Florida Sunshine Laws?
  - How would the City manage its remaining stake in JEA following the IPO?
  - Which regulatory approvals would be required prior to an IPO and how will they be integrated into the transaction timeline?

# Can an IPO Meet the Minimum Requirements?

## Considerations on Timing of Proceeds, Value to City and Committed Rate Stability Period / Customer Rebates

	Minimum Requirements	Does M&A Achieve This?	Does IPO Achieve This?	Comments
<b>Financial</b>	> <u>\$3 billion</u> of value to the City of Jacksonville	✓	✓	Proceeds received over time in an IPO, M&A achieves this upfront
<b>Customers</b>	> <u>\$400 million of value distributed to customers</u> (\$350+ paid to each JEA account; \$1,400+ for customers with electric, water, sewer and irrigation accounts)	✓	✓	
	At least three years of contractually guaranteed base rate stability for customers	✓	✓ ?	May be other ways to deliver same or better
<b>Environmental</b>	Commitment to develop and provide the City of Jacksonville and the Duval County Public School system with <u>100% renewable</u> electricity by the year 2030 <sup>(1)</sup>	✓	✓	
	Commitment to develop and provide <u>40 million gallons per day</u> ("MGD") of alternative water capacity for Northeast Florida by the year 2035 <sup>(1)</sup>	✓	✓	
<b>Community Impact</b>	Protection of certain employee retirement benefits <sup>(2)(3)</sup>	✓	✓	
	Maintenance of substantially comparable employee compensation and benefits for <u>three years</u>	✓	✓	
	Retention payments to all full-time employees of <u>100% current base compensation</u> <sup>(2)</sup>	✓	✓	
	Commitment to new headquarters and employees in downtown Jacksonville, contributing to the economic development of the community <sup>(4)</sup>	✓	✓	

**Notes:**

- Renewable electricity and alternative water to be provided at new or existing tariffs at a price equal to or less than the applicable tariff rate
- Certain employee-related minimum requirements are subject to collective bargaining, as applicable
- The Jacksonville City Council approved legislation on September 24th satisfying this requirement
- JEA's new headquarters is currently under initial stages of development in downtown Jacksonville. The process goal is commitment to the current downtown headquarters project

SECTION 1

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# IPO Process Overview











## IPO Process Summary

- An IPO represents the public stock market debut of a company
- The formal listing on an exchange (NYSE or Nasdaq) occurs typically after two-week roadshow where the executive management team (CEO, President, CFO) meet with institutional and retail investors
- A group of investment banks forms a syndicate of underwriters, with 1-3 lead book-running managers leading all aspects of the process, which includes the following high-level workstreams:
  - Due diligence (business/financial, legal, auditor/accounting, environmental, customer, etc.)
  - Documentation (prospectus, investor presentation, underwriting agreement)
  - Valuation (company model, research analyst models and ultimate per share filing range))
  - Investor engagement (messaging to the Street, coordinating 1x1 meetings, reflecting orders in the book)
- The typical IPO process involves several key parties including the Company, underwriter's counsel and auditors and takes 6-10 months from start-to-finish assuming carve-out/audited financials and quarterly SAS 100 financials are completed in advance
  - 2-3 months of initial due diligence, prospectus drafting
  - 2-3 months of prospectus review and comment period from the SEC examiner
  - Pre-marketing process ("Testing the Waters")
  - 2-week formal IPO roadshow
- Over the past five years (2014-2018), the U.S. IPO market has raised \$43.3Bn per year on average across 139 transactions
  - IPOs are typically between \$224MM-\$400MM in size and represent the sale of between 17%-30% of the company (initial free float outstanding)
  - Year-to-date, there have been 115 IPOs raising an aggregate \$43.7Bn
  - While issuance activity has been diverse across sectors, Technology and Health Care have seen the most activity
- While Power & Utilities IPOs are rare, investor-owned utilities have been actively raising capital over the past several years and a robust market exists from buy-side investors
  - Year-to-date, power & utilities companies have raised \$17.3Bn across 24 transactions with proceeds most often used to support acquisitions or to fund growth plans

Source: Dealogic

# Operational Considerations

## Private vs. Public Company—Differentiating Operational Factors

	Private Company	Public Company
<b>Accountability</b> 	<ul style="list-style-type: none"> <li>• Management/Supervisory Board</li> <li>• Fixed income investors</li> </ul>	<ul style="list-style-type: none"> <li>• Management/Supervisory Board</li> <li>• Equity analysts</li> <li>• Public shareholders</li> </ul>
<b>Internal Controls and Mgmt Accounting System</b> 	<ul style="list-style-type: none"> <li>• At company's discretion</li> </ul>	<ul style="list-style-type: none"> <li>• Best internal practices</li> <li>• In accordance with management requirement to produce timely public accounts, typically semi-annually or even quarterly</li> </ul>
<b>Accounting Reports</b> 	<ul style="list-style-type: none"> <li>• At company's discretion</li> </ul>	<ul style="list-style-type: none"> <li>• Timely reporting in line with requirements and best industry practices</li> <li>• Company must publish its financials within a specified period of time depending on the listing platform</li> </ul>
<b>Announcements</b> 	<ul style="list-style-type: none"> <li>• At company's discretion</li> </ul>	<ul style="list-style-type: none"> <li>• Company must make announcements on any material events (including changes relating to its capital and notification of major interests in its shares)</li> <li>• Company must report any instances of insider information as soon as possible</li> </ul>
<b>Share Dealings</b> 	<ul style="list-style-type: none"> <li>• N/A</li> </ul>	<ul style="list-style-type: none"> <li>• Company, Management and existing Shareholders are forbidden from trading during the lock-up periods, such as directly post-IPO</li> </ul>
<b>Investor Relations</b> 	<ul style="list-style-type: none"> <li>• N/A</li> </ul>	<ul style="list-style-type: none"> <li>• Creation of a dedicated team to field and address investor and equity research analyst inquiries and disseminate presentation materials, transcripts and public filings</li> </ul>
<b>Press Relations</b> 	<ul style="list-style-type: none"> <li>• Primarily for marketing purposes</li> </ul>	<ul style="list-style-type: none"> <li>• Formal appointment of Press Relations (“PR”) advisor recommended</li> <li>• Tool for forming public opinion</li> </ul>
<b>Corporate Governance</b> 	<ul style="list-style-type: none"> <li>• Self-governing</li> <li>• City of Jacksonville oversight</li> </ul>	<ul style="list-style-type: none"> <li>• Legally compliant Supervisory Board               <ul style="list-style-type: none"> <li>– Including independent directors</li> </ul> </li> <li>• Formation of Audit Committee</li> <li>• Adoption of by-law on insider trading</li> <li>• Implementation of internal control procedures</li> </ul>
<b>Internal Committees</b> 	<ul style="list-style-type: none"> <li>• At company's discretion</li> </ul>	<ul style="list-style-type: none"> <li>• Audit Committee               <ul style="list-style-type: none"> <li>– Oversee the relationship with external auditors</li> </ul> </li> <li>• Nomination and Remuneration Committee               <ul style="list-style-type: none"> <li>– Evaluate the Board of Directors</li> <li>– Identify suitable candidates</li> <li>– Monitor compensation rates</li> </ul> </li> </ul>
<b>Forward Looking Statements</b> 	<ul style="list-style-type: none"> <li>• Primarily for budgeting purposes</li> <li>• Missed budget may not necessarily weaken competitive position</li> </ul>	<ul style="list-style-type: none"> <li>• Trading updates and regular guidance updates</li> <li>• Managing research community: missed earnings expectations can have a significant adverse impact on the stock price</li> </ul>



# U.S. Equity Market Backdrop

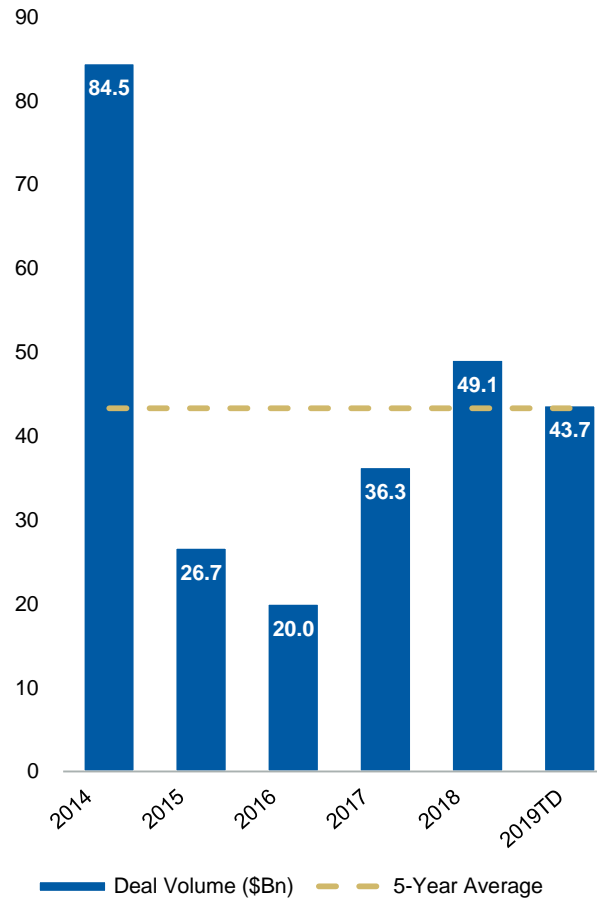
## Markets At/Near all-Time Highs <sup>(1)</sup>

(% Price Return, Indexed to 100)



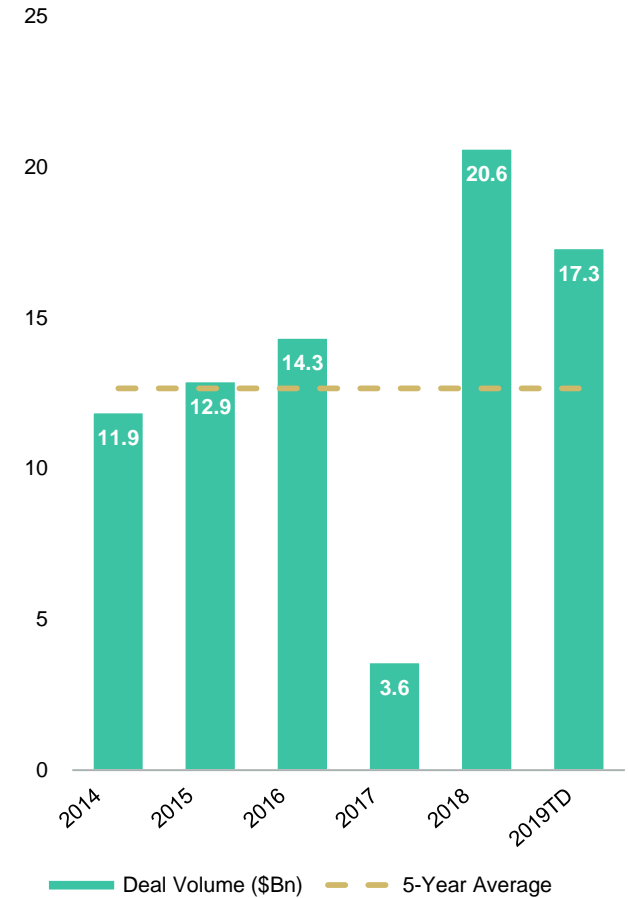
## IPO Issuance Over Time <sup>(1)</sup>

(\$Bn)



## Power & Utilities Issuance Over Time <sup>(1)</sup>

(\$Bn)



Source: Dealogic, CapIQ

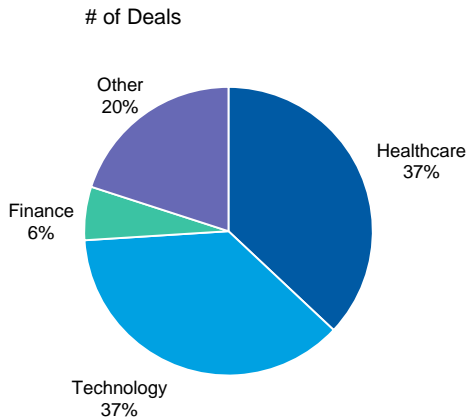
**Notes:**

1. As of November 18, 2019; Power & Utilities issuances refer to follow-on offerings

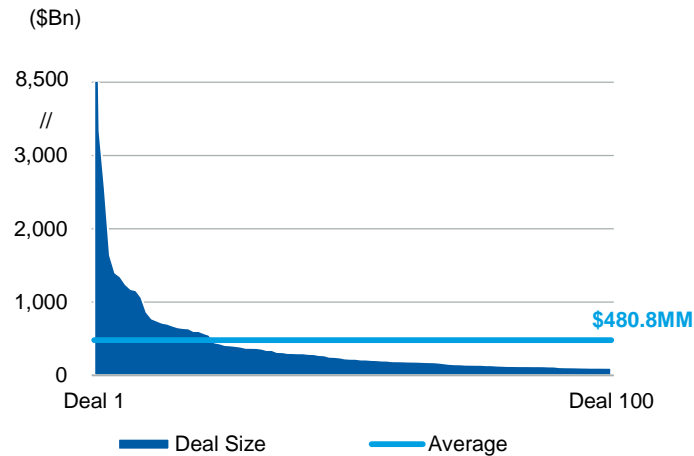
# IPO Deal Sizing Considerations

## Last 100 SEC Registered IPOs (\$100MM+ IPOs)

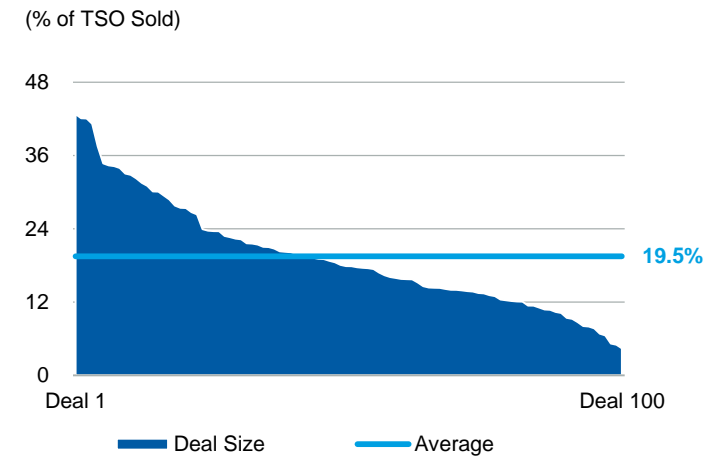
Last 100 IPOs by Sector



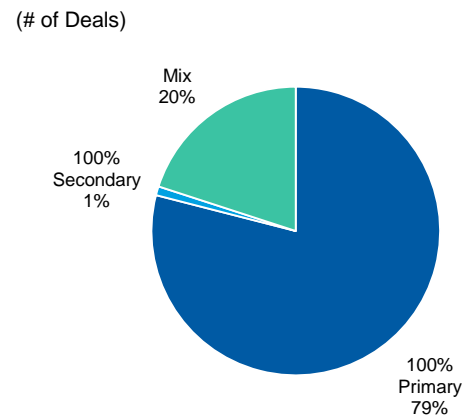
Last 100 IPOs by Deal Value



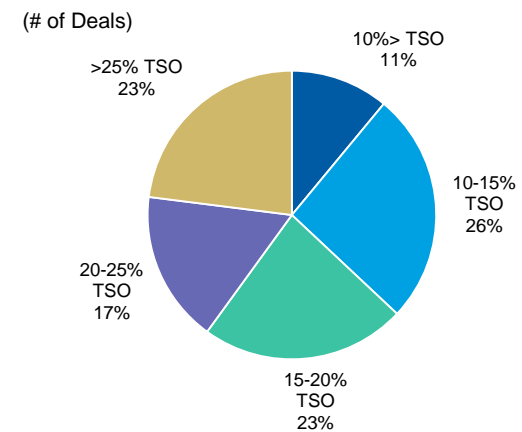
Last 100 IPOs by % of Company Sold



Last 100 IPOs by % Primary Sold



Last 100 IPOs by % TSO Sold



# IPO Discount Analysis – All Sectors

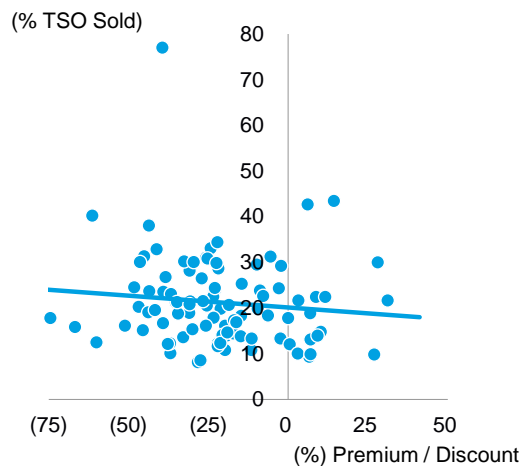
## Precedent Discounts In the Utility Sector Imply a More Modest IPO Discount Relative to Broader Market



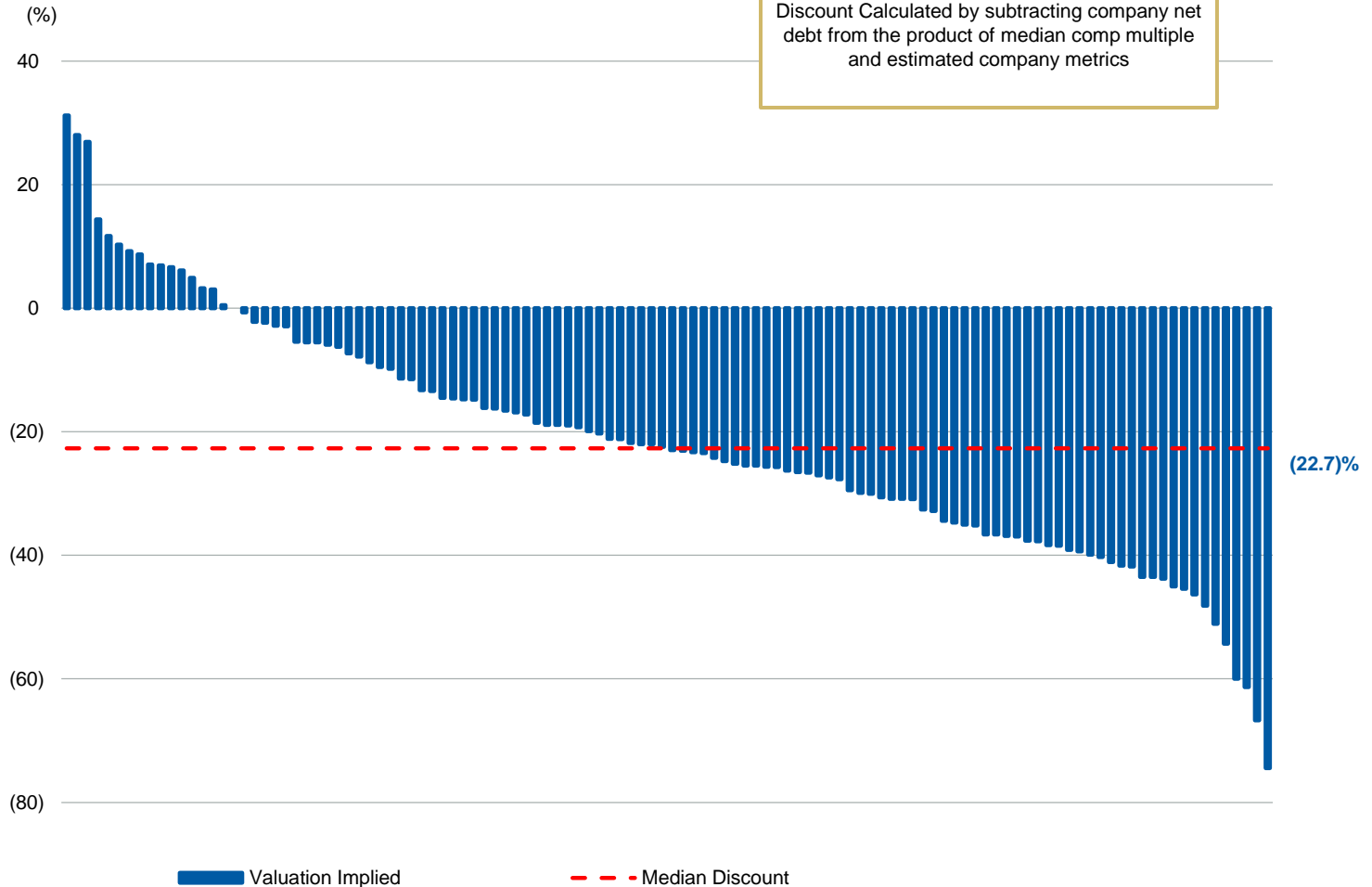
### Hydro One Canadian IPO Privatization Precedent

Pricing Date:	10/29/2015
Deal Value:	\$1,383MM
Filing Range:	C\$19-21/share
Valuation Range:	16.4-18.1x 2016E EPS
Dividend Yield:	4.0-4.4%
Pricing:	C\$20.10/share (17.7x, 4.1%, ~3% discount to peers)

### Discount vs % TSO Regression Analysis



### IPO Premium / Discounts Since 2015



**Methodology**

Discount Calculated by subtracting company net debt from the product of median comp multiple and estimated company metrics

Source: Morgan Stanley Internal

# Post-IPO Sell-down Timing

## Key Assumptions

- Pre-IPO Shareholders continues to retain their ownership post-IPO with a plan to sell-down incrementally over time
- Equity trades well in the aftermarket
- Precedents suggest that a pre-IPO shareholder should be able to divest entire stake within ~12-24 months of the IPO
- Sells approximately 20-25% of the company at IPO

## Considerations

- The market will be focused on existing shareholders' future liquidity intentions, which underscores the importance of careful messaging
- Appropriate lock-up arrangements for existing shareholders would be an essential part of the messaging

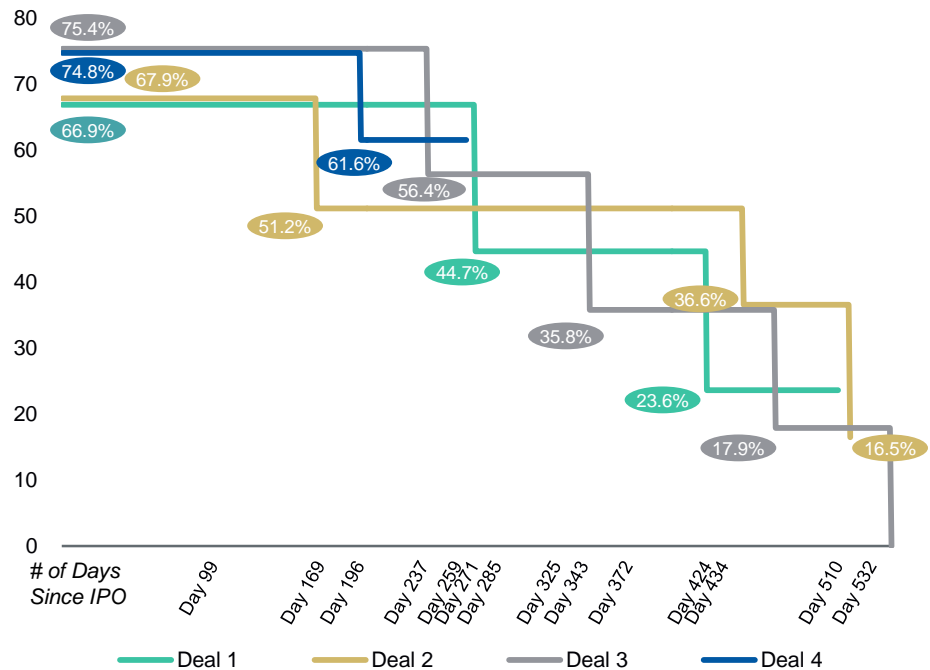
## Illustrative Exit Schedule Post -IPO

Timing	1 <sup>st</sup> Sell-Down	2 <sup>nd</sup> Sell-Down	Additional Sell-down(s)
Transaction Type	Marketed Follow-On	Marketed Follow-On	Block Trade(s)
% TSO Sold	15 – 30%	15 – 30%	Remainder (if any)
Lock-up Period (Post-offering)	3 months	3 months	2 – 3 months for each incremental block (as applicable)

## Precedent Sell-Down by Sponsors / Other Pre-IPO Shareholders

- Precedent data highlights a wide range of controlling shareholder sell-down timing and approach, due to various factors, including stock market performance, risk appetite and liquidity

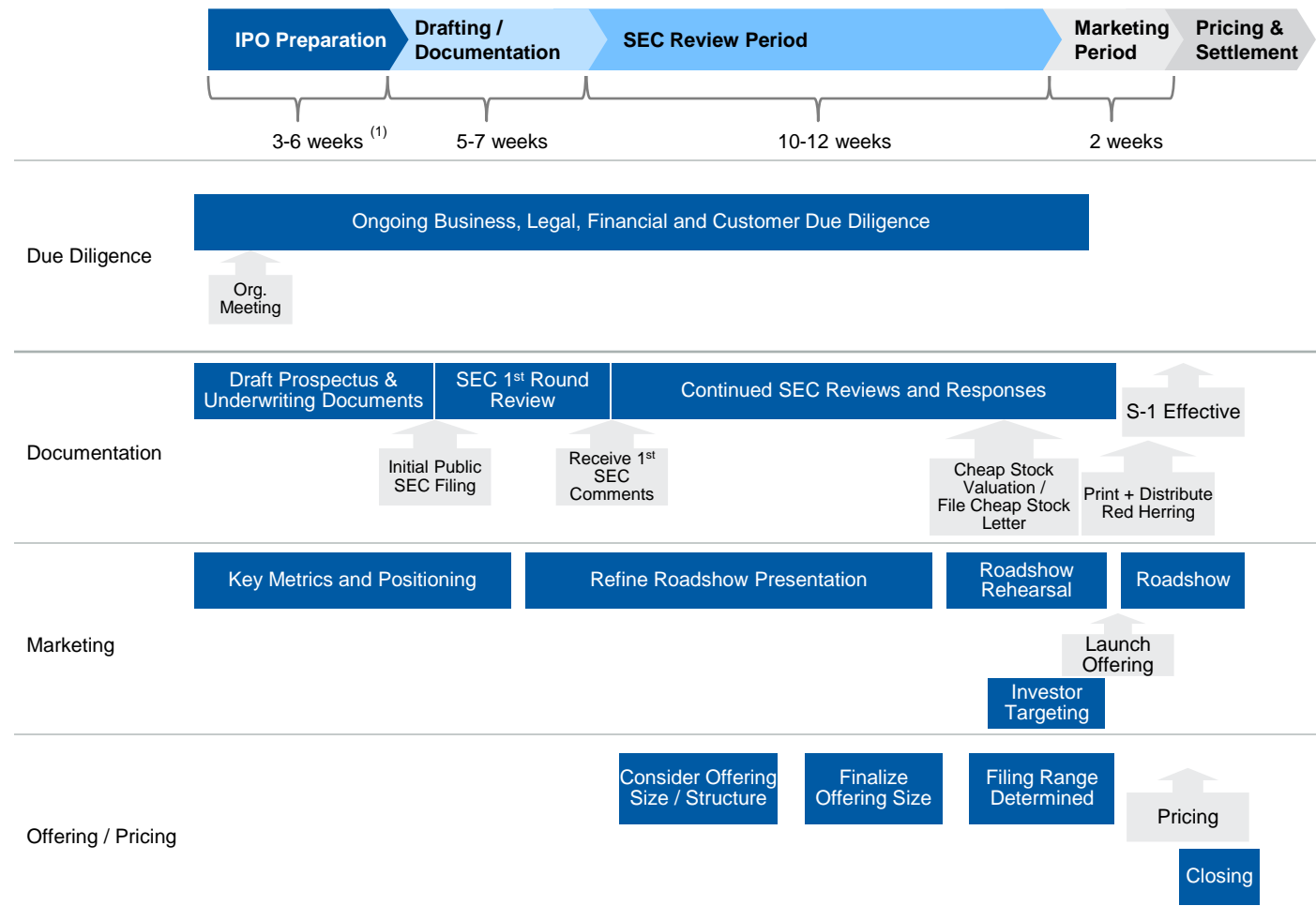
Stake (%) Owned by Controlling Shareholder



# Illustrative IPO Timeline

## Example Areas of Focus Pre-Filing:

- Kick-off due diligence meeting and review of presentation materials
- Prospectus drafting sessions scheduling (small group and large group)
- Financial (forward) model review
- Research analyst due diligence session
- Third-party and customer diligence calls: Bankers and research analysts will hold joint diligence calls with customers
- Key Non-GAAP metrics (prospectus, roadshow, future guidance policy), operational and financial metrics
- Preparation of GAAP compliant audited financial statements + SAS100 review of recent quarters
- While JEA is GAAP compliant, JEA would need to convert financials from GASB to FASB which is estimated to take 2-3 months
- Accounting and auditor strategy (due diligence call, comfort letters, national office review, etc.)
- Finalizing corporate structure
- Board of Directors composition (D&O questionnaires, independent board members, committee structure, background checks, etc.)
- Compensation plans (terms, magnitude, consultant report)
- Cheap stock and executive compensation disclosure
- Onboarding transfer agent and printer
- Third-party approval for items used in prospectus
  - Customer case studies
  - Customer logos/names
  - Industry data
  - Financial statements
- Lock-ups (who needs to sign and by when)
- Engage listing exchange for approval
- Review underwriting and associated agreements



**Note:**

1. Preparation of GAAP financial statements may require longer than 3-6 weeks given conversion from government accounting

# Key IPO Workstreams: Overview

	1	2	3	4	5	6
	<b>IPO Preparation</b> <ul style="list-style-type: none"> <li>Diligence</li> <li>Finalize Company Solution / Positioning</li> <li>Determine Transaction Structure</li> <li>Preliminary Work on S-1 Business Section</li> <li>Business / Financial Model Creation</li> <li>Underwriter Due Diligence</li> </ul>	<b>Drafting / Documentation</b> <ul style="list-style-type: none"> <li>Draft and File the S-1</li> <li>Business / Financial Model Refinement</li> </ul>	<b>SEC Review Period</b> <ul style="list-style-type: none"> <li>Prepare Roadshow Presentation</li> <li>Receive and Respond to SEC Comments</li> <li>Business / Financial Model Refinement</li> </ul>	<b>Analyst Day Prep</b> <ul style="list-style-type: none"> <li>Finalize Models / Prepare for Analyst Day</li> <li>Analysts Refine and Provide Final Model</li> </ul>	<b>Marketing</b> <ul style="list-style-type: none"> <li>Testing the Waters and Live Roadshow Investor Meetings</li> <li>Business / Financial Model Explanation</li> <li>Refine Roadshow Presentation</li> </ul>	<b>Allocation, Pricing, and Support</b> <ul style="list-style-type: none"> <li>Business / Financial Model Updates</li> </ul>
<b>Parties Involved</b>	<ul style="list-style-type: none"> <li>JEA</li> <li>Lead bookrunners</li> <li>Board of directors</li> <li>Existing shareholders</li> <li>Accountants</li> <li>Issuer / Underwriter Counsel</li> </ul>	<ul style="list-style-type: none"> <li>JEA</li> <li>Lead bookrunners</li> <li>Issuer / Underwriter Counsel</li> <li>Accountants</li> </ul>	<ul style="list-style-type: none"> <li>JEA</li> <li>Lead bookrunners</li> <li>Board of directors</li> <li>Issuer / Underwriter Counsel</li> <li>SEC</li> </ul>	<ul style="list-style-type: none"> <li>JEA</li> <li>Bookrunners                             <ul style="list-style-type: none"> <li>Banking and capital markets</li> <li>Research</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>JEA</li> <li>Bookrunners                             <ul style="list-style-type: none"> <li>Capital markets</li> <li>Salesforce</li> <li>Research</li> <li>Issuer / Underwriter Counsel</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>JEA</li> <li>Bookrunners</li> </ul>
<b>Key Deliverables</b>	<ul style="list-style-type: none"> <li>Organizational book</li> <li>Financial model</li> <li>Offering structure</li> <li>Identify 3rd parties for key market information</li> <li>Auditor process on financials</li> </ul>	<ul style="list-style-type: none"> <li>S-1 drafting and filing</li> <li>Analyst interaction</li> </ul>	<ul style="list-style-type: none"> <li>Final S-1</li> <li>Final financial model</li> </ul>	<ul style="list-style-type: none"> <li>Analyst presentation</li> <li>Final analyst model</li> </ul>	<ul style="list-style-type: none"> <li>Roadshow presentation</li> <li>Printed prospectus with valuation range</li> <li>Investor targeting</li> <li>Order book/allocation list</li> </ul>	<ul style="list-style-type: none"> <li>Final pricing and allocation</li> </ul>
<b>Phase Completion Milestone</b>	<ul style="list-style-type: none"> <li>Finalize syndicate structure</li> <li>Organizational meeting</li> </ul>	<ul style="list-style-type: none"> <li>Initial S-1 filing</li> </ul>	<ul style="list-style-type: none"> <li>SEC clearance</li> <li>Board clearance</li> <li>Regulator clearance</li> </ul>	<ul style="list-style-type: none"> <li>Analysts receive models</li> </ul>	<ul style="list-style-type: none"> <li>Roadshow ends / IPO pricing</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing</li> <li>Exercise greenshoe if applicable</li> </ul>
<b>Key Risks to Timely Phase Completion</b>	<ul style="list-style-type: none"> <li>Organizational readiness</li> <li>Lack of financial visibility</li> <li>Public company style quarterly closes</li> </ul>	<ul style="list-style-type: none"> <li>Financial statement delays</li> <li>Completion of major agreements or company milestones</li> <li>Gun-jumping</li> </ul>	<ul style="list-style-type: none"> <li>Disputed accounting methodology</li> <li>Valuation of stock-based compensation</li> <li>Unsupported competitive claims</li> </ul>	<ul style="list-style-type: none"> <li>Delays in receiving feedback</li> </ul>	<ul style="list-style-type: none"> <li>Timing of quarter/fiscal year end</li> <li>Holidays</li> <li>IPO market receptivity</li> </ul>	<ul style="list-style-type: none"> <li>Market conditions</li> <li>Investor receptivity</li> </ul>

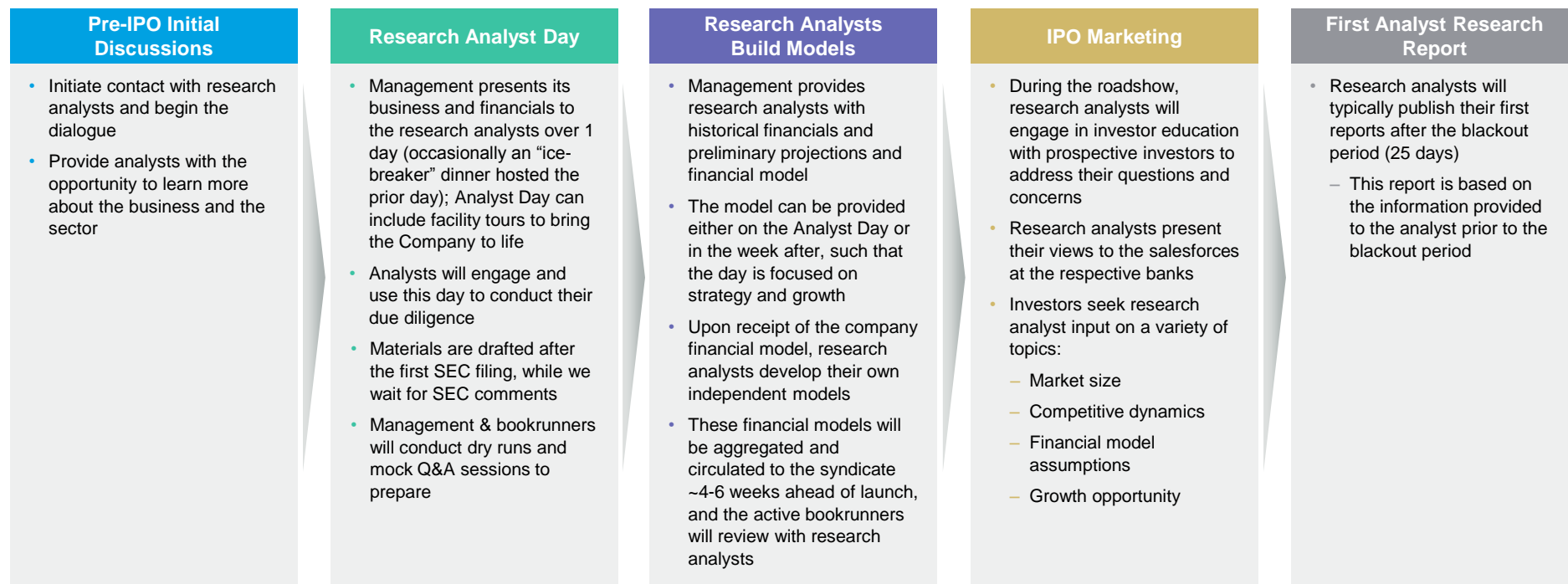
# Key Lead Time Areas of IPO Preparation

Area	Lead Time Required	Potential Delay Risk	Key Parties Involved	Most Common Issues	Steps to Take Now
Accounting			<ul style="list-style-type: none"> <li>Auditors</li> <li>JEA</li> </ul>	<ul style="list-style-type: none"> <li>Internal controls</li> <li>End of period adjustments/national office</li> <li>Material weakness</li> <li>Revenue recognition</li> <li>Stock-based compensation</li> </ul>	<ul style="list-style-type: none"> <li>Complete historical audits</li> <li>Complete historical quarterly reviews to the extent you want to use them</li> <li>Perform routine quarterly close</li> <li>Invest in Enterprise IT systems and controls                             <ul style="list-style-type: none"> <li>Current systems should be able to handle next 3–5 years comfortably</li> </ul> </li> </ul>
Modeling, Metrics and Guidance			<ul style="list-style-type: none"> <li>JEA</li> <li>Lead bookrunners</li> </ul>	<ul style="list-style-type: none"> <li>Balancing transparency vs. desire to manage investors for long-term</li> </ul>	<ul style="list-style-type: none"> <li>Identify key metrics used to measure and forecast the business</li> <li>Identify the likely “referendum” type metrics in forecast that will become the key investor debate (i.e., monetization metrics) and take steps to be able to provide analytical evidence if required/desired during IPO marketing</li> <li>Perform quarterly dry-runs of disclosing and validating metrics and guidance</li> </ul>
Equity Incentive Programs			<ul style="list-style-type: none"> <li>JEA</li> <li>Valuation specialist</li> </ul>	<ul style="list-style-type: none"> <li>SEC cheap stock comments</li> <li>Potential accounting charge</li> <li>RSUs vs. Options</li> </ul>	<ul style="list-style-type: none"> <li>Document most recent equity grants along with evidence supporting fair value</li> </ul>
Legal			<ul style="list-style-type: none"> <li>Internal counsel</li> <li>External counsel</li> </ul>	<ul style="list-style-type: none"> <li>Outstanding lawsuit</li> <li>IP/Patent infringement claims</li> </ul>	<ul style="list-style-type: none"> <li>File relevant patent applications</li> <li>Perform IP/patent investigations to identify areas of potential concern</li> </ul>
Corporate Governance			<ul style="list-style-type: none"> <li>Board of directors</li> </ul>	<ul style="list-style-type: none"> <li>Independent directors</li> <li>Audit committee</li> </ul>	<ul style="list-style-type: none"> <li>Identify candidates for board consideration</li> </ul>
Research Analyst Education			<ul style="list-style-type: none"> <li>JEA</li> <li>Underwriters</li> </ul>	<ul style="list-style-type: none"> <li>Explaining business model and key drivers</li> <li>Providing sufficient metrics/guidance for reasonable forecasts</li> </ul>	<ul style="list-style-type: none"> <li>Provide updates and access to research analysts</li> <li>Identify and begin internal reporting of key metrics</li> </ul>
Prospectus Drafting			<ul style="list-style-type: none"> <li>JEA</li> <li>Bookrunners</li> <li>External counsel</li> <li>Accountants</li> </ul>	<ul style="list-style-type: none"> <li>Business section revisions</li> <li>Auditor readiness</li> <li>Identifying 3rd party key market information</li> </ul>	

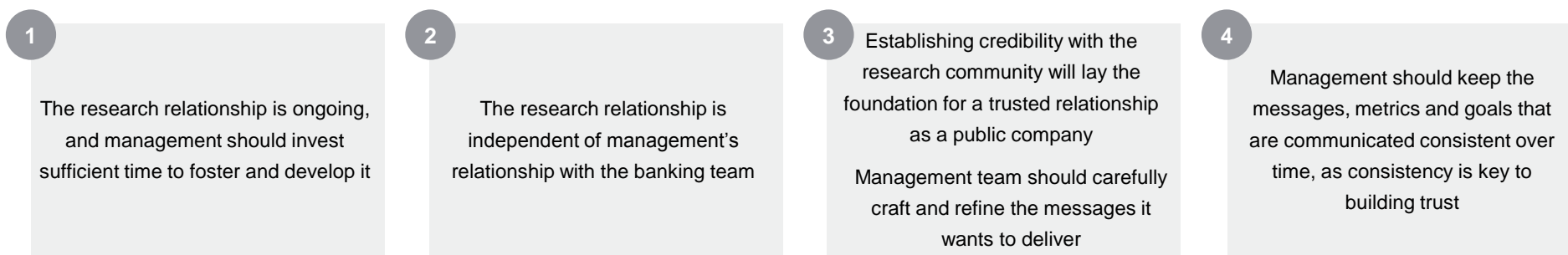


# Research Analyst Integration Overview

## Developing Relationships with the Research Analyst Community



### Key Takeaways





# Company Structural Considerations

## Potential to Structure Offering to Achieve Local Community Objectives

### Dual-Class or Multi-Class Share Structures



High Vote / Low Vote



High Vote / Low Vote / No Vote



High Vote / Low Vote / No Vote  
(Authorized / Unissued)

### Ownership Restrictions



Single Holder 10% Maximum



Non-Domestic Ownership  
Limitations

### Head Office Restrictions



Head Office in Ontario



Head Office in Edmonton

### Ownership Restrictions



Golden Shares



Loyalty(Time-Based) Voting Shares



Staggered Board



Blank Check Preferred Authorized /  
Unissued

SECTION 2

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# Legal Considerations Unique to JEA Regarding Execution

# Gun Jumping

## Overview of the SEC Regulation

- Gun jumping refers to selectively using undisclosed financial and other information in two popular methods:
  - The illegal practice of soliciting orders to buy a new issue of securities or to create interest in such securities or the issuer before registration of an IPO has been approved by the Securities and Exchange Commission
  - Trading securities based on information that has not yet been disclosed to the public

### Description of SEC Regulation | Gun Jumping

Summary of Applicable Regulatory and Legal Clauses

- The pre-filing or quiet period begins when a company decides to make a public offering (usually upon the engagement of an underwriter) and ends when the registration statement relating to the offering is first filed publicly with the SEC
  - During this period, Section 5(c) of the Securities Act prohibits any person from engaging in activity that could be construed as making an “offer” of the company’s securities
- The SEC has construed the term “offer” very broadly to include communications that do not refer to the proposed offering but which may nevertheless stimulate investor or dealer interest in the issuer or its securities
  - General statements about the issuer’s rosy future prospects or non-ordinary course communications may well be considered to be offers
  - An IPO issuer should generally not release publicly any forecasts, projections, or predictions relating to revenue, income, or earnings per share or concerning expected valuations, and should put in place procedures for review of public statements and press releases as soon as the IPO process first gets underway
- Violations of gun jumping laws could lead to discretionary SEC enforcement, including requiring a cooling off period before furthering the IPO process, or requiring the information subject to the gun-jumping violation to be disclosed in the IPO registration statement, thereby subjecting the issuer to securities law liability for such information

# Florida Sunshine Law Overview

## Applicable Regulatory and Legal Clauses

- JEA is a government body in Florida, and therefore is subject to the Florida Sunshine Law

### Description of Florida Sunshine Law

Summary of Applicable Regulatory and Legal Clauses

- The Florida Sunshine Law, established in 1995, is a series of laws designed to guarantee that the public has access to the public records of government bodies in Florida
- Public records include all documents, papers, letters, maps, books, tapes, photographs, films, sound recordings, data processing software, or other material, regardless of physical form or characteristics, or means of transmission, made or received pursuant to law to ordinance or in connection with the transaction of official business by any agency
  - Additionally, public records include the broadcasting of official board meetings
- Some exemptions that are included are federal records that the federal government has designated as non-public, personal e-mails sent from or received by city employees using a government computer, some “drafts” or “notes” are also exempt
- According to the Florida Sunshine Law, any person in Florida can request public documents and a purpose does not have to be stated. Records can be used any way the person wants and the law does not specify a specific response time

# Gun Jumping vs. Florida Sunshine Law

## Legal Considerations Unique to JEA Regarding Execution

- While preparing for an IPO filing, JEA is subject to public records request under Florida Sunshine Laws
  - Information disclosed pursuant to a public records request arguably could create risk of violating SEC's Gun Jumping regulation
- Use of government procurement construct may mitigate risk of Gun Jumping as a result disclosures under Florida Sunshine Laws

### Gun Jumping vs. Florida Sunshine Law

#### Navigating the Process

- **How can we navigate around both?**
  - Gun Jumping Exemptions during Quiet Period
    - Communications containing factual business information, but not forward-looking information, if such communication was intended for non-investors
    - Testing-the-waters meetings with QIBs (though the presentation used in such meeting may become subject to disclosure under the Florida Sunshine Laws, thereby creating risk of potential gun-jumping violation)
- **Board Communication / Approval**
  - The JEA Board's fiduciary duty, when dealing with the sale of the company, is to maximize value for the owners. The Board must consider all material information reasonably available and be generally aware of the value of the company and the marketplace
  - The underwriters must present the indicative pricing of the IPO and the underlying model to the JEA Board and allow the JEA Board to ask questions about the pricing and model
  - This presentation as well as any supporting materials will become publicly available under Florida Sunshine Law
  - Thus, the underwriter's estimation of JEA's valuation as well as the underlying financial model will be made public which arguably could create a risk of violations of gun jumping laws requiring a cooling off period and disclosure of the pricing model in the registration statement
  - In order to reduce the number of board meetings to discuss JEA's valuation in an IPO, the JEA Board may direct the banks to guide to a wider valuation range

# Legal Considerations Unique to JEA as a Government Entity

## How Can the City Structure Ownership in a Publicly Listed JEA?

- The Florida Constitution prohibits all governmental entities, including the City and JEA, from becoming a “joint owner with, or stockholder of, any corporation” or other business enterprise
- The Constitution provides an exception for “joint ownership, construction and operation of electrical generating or transmission facilities”
- Although no controlling legal precedent has been found, the JEA likely can create a corporation for the purpose of sale of JEA through an initial public offering to investors. However, the City or JEA probably cannot remain a shareholder of JEA following the sale of stock to investors
- The City’s pension plans likely could hold some JEA shares following an IPO
- The JEA may be able to use an independent liquidating trust structure to hold residual JEA shares following an IPO to facilitate the orderly sale of the remaining shares following the IPO. The legal issue will be whether the JEA or City remains a “joint owner” by virtue of its economic interest as beneficiary of the trust and control over the trustee. The risk of governmental “ownership” will be reduced by (i) independent institutional trustee, (ii) clear mandate in trust instrument for trustee to liquidate the remaining shares as quickly as possible consistent with prudent financial practice, (iii) a fixed outside termination date of relatively short duration, and (iv) requirement that JEA shares owned by Trust be voted in proportion to votes cast by JEA public shareholders

# Regulatory Considerations of a Potential IPO of JEA

## What key regulatory approvals are required for an IPO?

- Prior to pricing the IPO, JEA will need to obtain regulatory approval from both the PSC and FERC

### Regulatory Approvals

#### PSC and FERC Approval:

- The Florida Public Service Commission (the “PSC”) will need to approve the IPO and establish rates for the new entity prior to IPO pricing
  - This process can take up to 15-18 months, not counting potential appeals
  - The PSC has not granted this type of approval before, so this process could be more involved and cumbersome than a traditional PSC proceeding. Approval of the IPO will be subject to a broad “public interest” test, in which the new entity most likely will be required to demonstrate that an IPO is more beneficial to electricity customers than JEA continuing to operate as a municipal utility
  - JEA will need to prepare rate case materials on a pro forma basis showing the capitalization, rate of return and valuation of the Company on a post-IPO basis with supporting materials. This could lead to significant discussions with the PSC Staff regarding the assumptions used in preparing such materials and objection by intervenors opposed to the IPO
    - JEA will need to engage the PSC Staff early in the IPO process to understand their expectations and timing regarding the approval process
    - The rate case will need to establish a rate that allows for the IPO entity to collect from retail customers total revenues equal to the cost of providing service and allow for a reasonable rate of return on invested capital
- The PSC must also approve any issuance of securities of JEA, including after the IPO
- The Federal Energy Regulatory Commission will also need to approve the issuance of securities and approve the transfer of JEA’s assets to the new entity
  - The substantive standards applicable to these approvals are more straightforward than PSC approval
  - To obtain FERC approval prior to pricing of the IPO, it may be necessary to follow a two-step process in which the new entity acquires title to JEA’s assets before the IPO occurs
    - Counsel to research this issue in more detail

SECTION 3

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# How Will Investors Price JEA Stock?

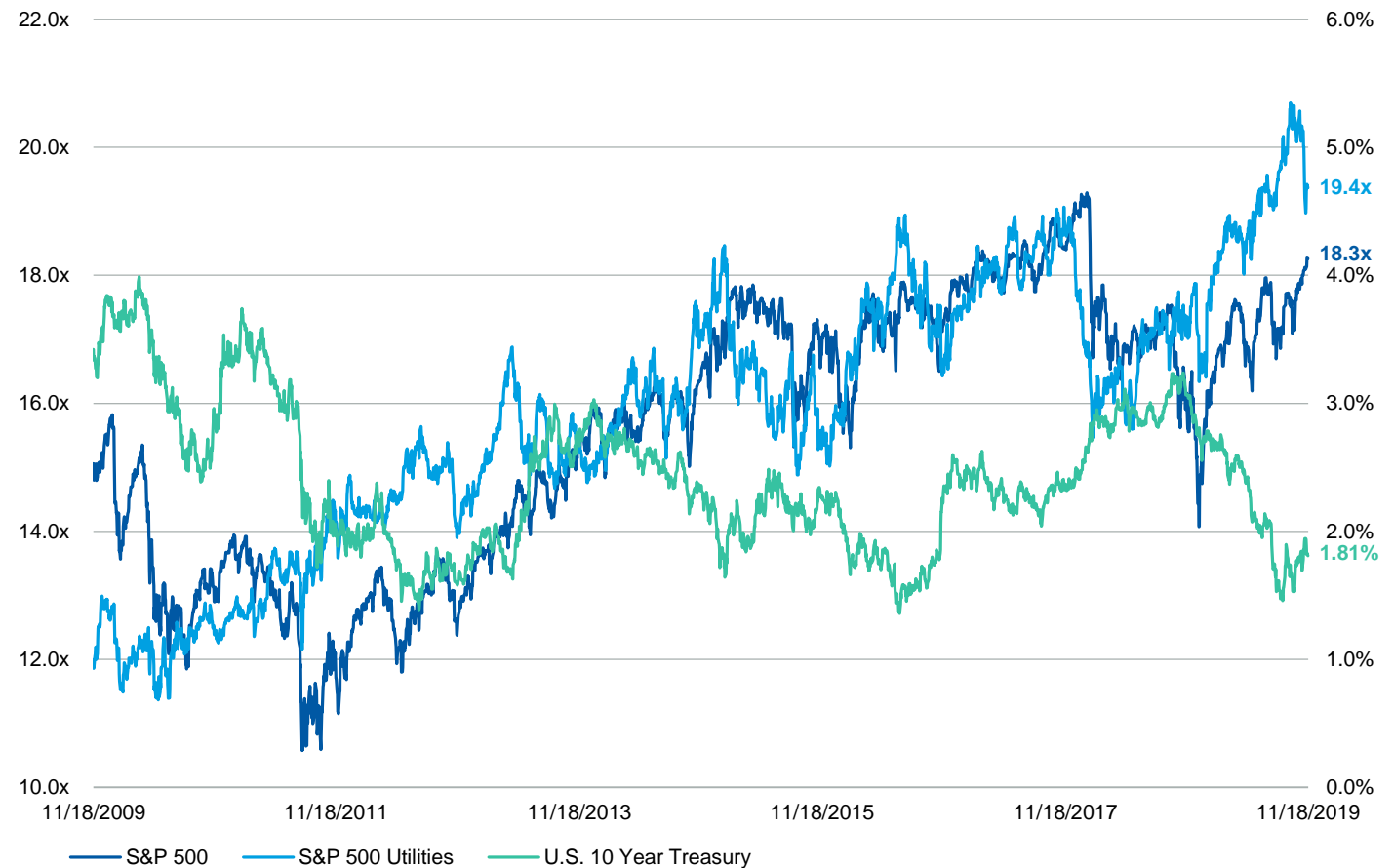


# How Do Utilities Trade?

- The current low interest rate environment has driven utilities to trade at all-time highs on an absolute basis and relative to broader market indices such as the S&P 500
- Due to the substantial portion of earnings that utilities pay to investors in the form of dividends and the stability and predictability inherent in their regulated business model, utility stocks are viewed as bond-like proxies, or “yield” investments
  - Typically utilities trade at higher values when interest rates are low, and lower valuations as interest rates rise

**S&P 500 and S&P 500 Utilities NTM P/E Multiples vs U.S. 10-Year Treasury Yield**

11/18/2009 – 11/18/2019



Source: Capital IQ, Bloomberg

# How Will Investors Price JEA Stock?

## Overview

- Investors value utilities on a Next Twelve Months (“NTM”) Price to Earnings (“P/E”) basis
- Investors will estimate JEA’s stock price by taking JEA’s forward earnings multiplied by a P/E multiple based on the trading levels of JEA’s peers
  - Depending on how the market views the strength of JEA’s business relative to its peer group, JEA’s multiple can trade in-line, lower or higher than peers
- No publicly-listed integrated electric & water utility peers in the U.S.
  - As a result, market participants may analyze trading levels on a Sum of the Parts (“SOTP”) basis, i.e., valuing each underlying business separately and then calculating the total enterprise value as the sum of each parts
- Separate peer sets were selected for the electric and water utilities
  - Electric peers chosen based on publicly traded electric utilities with market capitalization of ~\$1Bn – \$5Bn
    - Electric peers include: Portland General Electric Company (POR), Allele Inc. (ALE), Northwestern Corp (NWE), Otter Tail Corporation (OTTR) and Chesapeake Utilities Corporation (CPK)
  - Water peers chosen based on publicly traded water utilities with market capitalization of less than \$10Bn <sup>(1)</sup>
    - Water peers include: Aqua America Inc (WTR), American States Water Co (AWR), California Water (CWT) and SJW Group (SJW)
  - Further comparable companies can be added as the IPO process evolves to capture relevant JEA strengths

**Note:**

1. Peer selection criteria expanded given smaller number of publicly-listed water utilities

## JEA Business Highlights

<b>Unique Opportunity of Scale</b>	<ul style="list-style-type: none"> <li>• Largest government-owned utility in Florida</li> <li>• Eighth-largest government-owned utility in the U.S.</li> <li>• Top 10 water and wastewater utility in the U.S.</li> </ul>
<b>High-Quality Asset with Attractive Investment Dynamics</b>	<ul style="list-style-type: none"> <li>• Top-quartile utility in customer satisfaction, as rated by JD Power</li> <li>• Industry leading operational metrics</li> </ul>
<b>Significant Asset Base with Attractive Investment Dynamics</b>	<ul style="list-style-type: none"> <li>• ~\$1.2 billion of capital invested in the utility over the past three years; \$614 million in the electric system (“Electric System”) and \$598 million in the water system (“Water and Wastewater Systems”)</li> <li>• Net capital plant of ~\$5.5 billion: ~\$2.7 billion at the Electric System and ~\$2.7 billion at the Water and Wastewater Systems</li> <li>• ~\$2.9 billion Management Case capital expenditure program planned over the next five years</li> </ul>
<b>Stable, Low-Risk Regulatory Environment</b>	<ul style="list-style-type: none"> <li>• Mature core utility business with low operating risk</li> <li>• Utility business historically characterized by the need for significant investment, particularly at the outset, and limited exposure to economic cycles</li> <li>• Constructive utility regulatory environment</li> </ul>
<b>Large, Growing Jacksonville MSA</b>	<ul style="list-style-type: none"> <li>• Seventh-largest population gain in 2018 amongst U.S. cities</li> <li>• Labor market thriving with unemployment rate of 3.0%, below both Florida and national unemployment rates</li> <li>• No state or city personal income tax</li> </ul>
<b>Supportable Execution Plan to Become A Leading Platform</b>	<p><b>Operational improvements</b></p> <ul style="list-style-type: none"> <li>• Redesign JEA’s operating practices to achieve top-quartile performance as measured against JEA’s peer set</li> </ul> <p><b>Strategic capital investments</b></p> <ul style="list-style-type: none"> <li>• Make incremental investments in traditional utility infrastructure to deliver new outcomes and benefits to our customers (e.g., climate resiliency, grid flexibility and customer choice, clean and sustainable, etc.)</li> </ul> <p><b>Core growth opportunities</b></p> <ul style="list-style-type: none"> <li>• Invest in new growth businesses core to the utility model: transport electrification, energy efficiency, distributed generation</li> </ul> <p><b>Additional growth opportunities</b></p> <ul style="list-style-type: none"> <li>• Identified additional growth initiatives that position JEA as a growth platform, that are not included in the model</li> </ul>

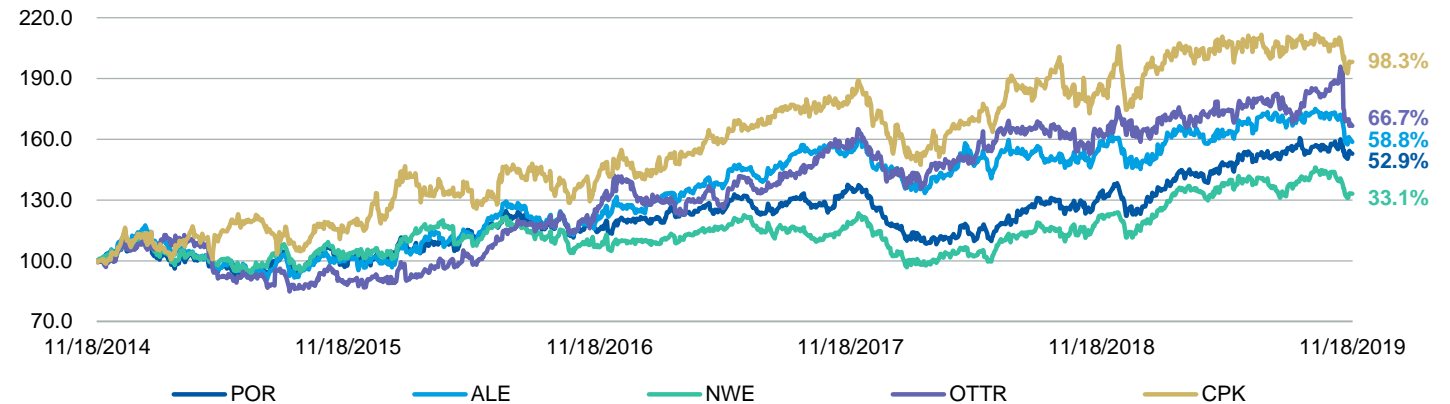
# Electric Peer Group

## Trading History Over the Past 5 Years

- Electric utility valuations are at or near all-time highs on an NTM P/E basis
- Peer group for JEA electric selected based on the below screening criteria:
  - U.S. electric-focused utilities
  - Market capitalization of ~\$1Bn – ~\$5Bn

### Indexed Share Price Performance

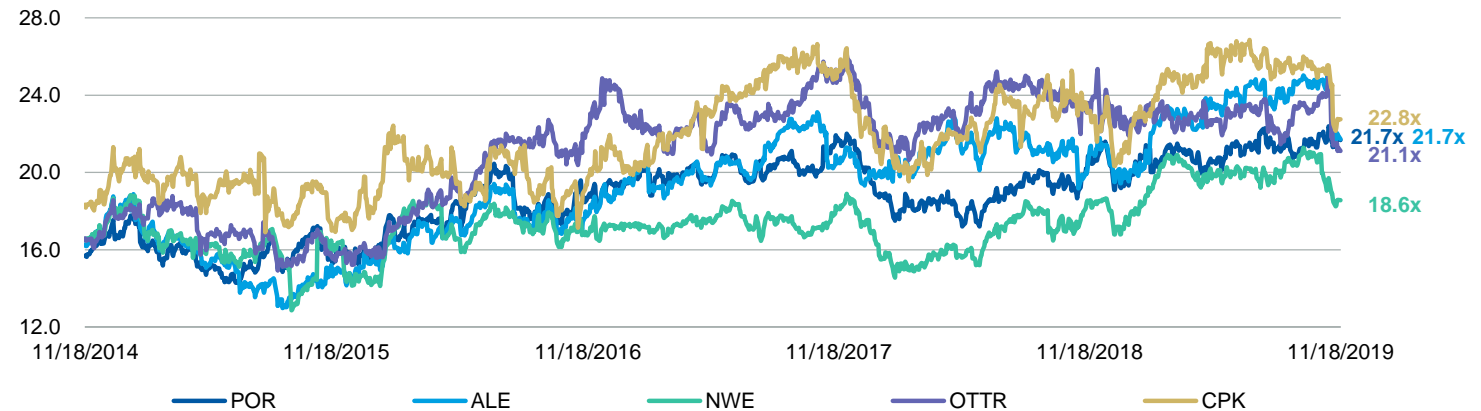
November 18, 2014 – November 18, 2019



Source: Capital IQ

### NTM P/E Multiple

November 18, 2014 – November 18, 2019



Source: Capital IQ

### Electric Peer Group



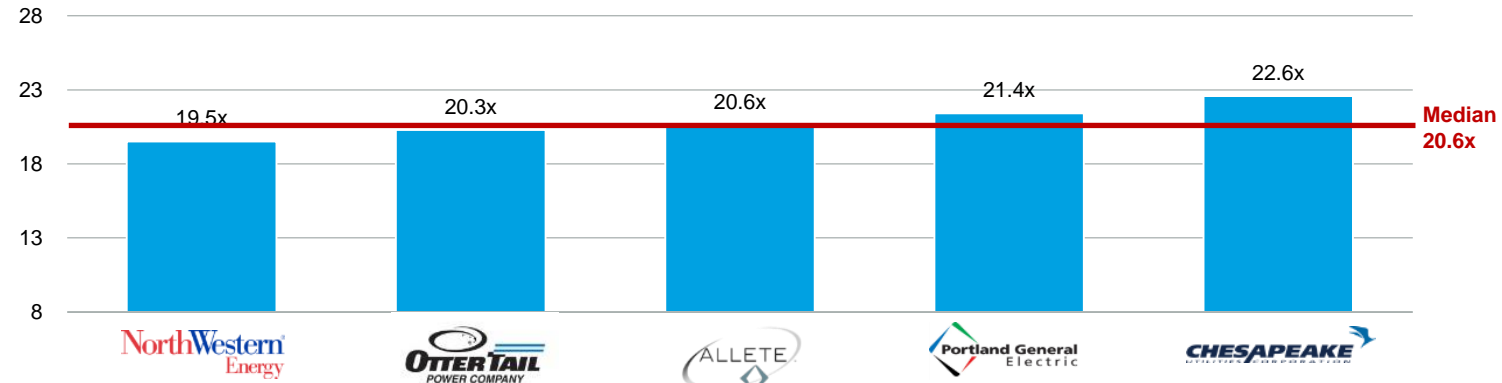
# Electric Peer Group

## 2020 and 2021 P/E Multiples

- Electric comps trade at a median 2020 P/E of 20.6x and 2021 P/E of 19.5x

### 2020 P/E Multiples

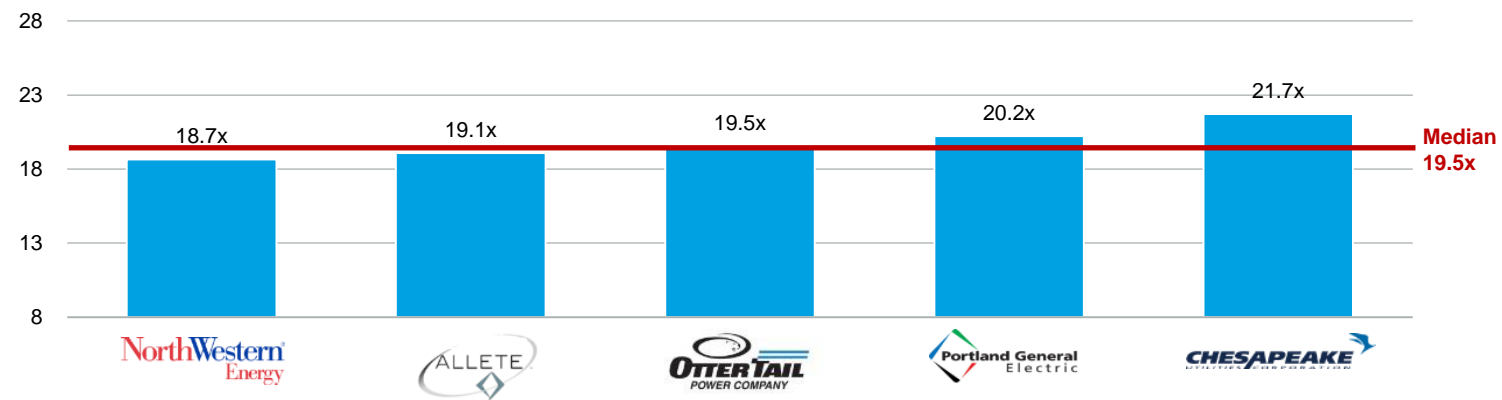
As of November 18, 2019



Source: Capital IQ

### 2021 P/E Multiples

As of November 18, 2019

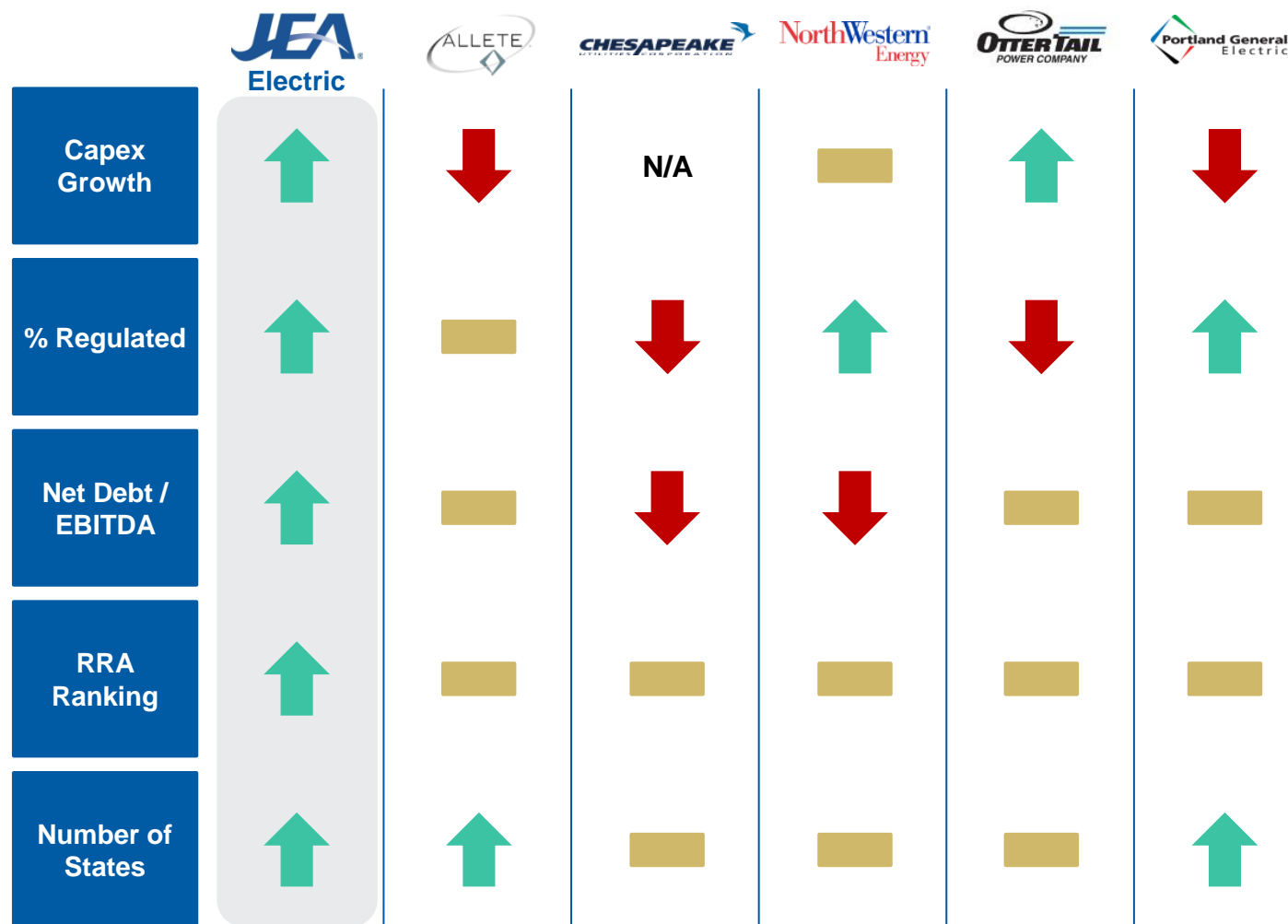


Source: Capital IQ

# How Does JEA Compare to the Electric Peer Group?

## Benchmarking JEA Electric to Electric Peer Set in Select Categories of Particular Investor Focus

- We have analyzed JEA's electric business versus its publicly traded peer set on key measures of value that utility investors focus on:
  - JEA electric capital expenditure growth of ~7% over the next four years
  - 100% regulated business provides stable and predictable earnings
  - Low leverage compared to peers
  - Florida is a favorable regulatory environment with constructive regulatory commission dynamics
  - JEA's operations are in one state making any potential M&A more attractive from a regulatory approval perspective, thus the potential for investors to price in an "M&A premium"



Source: Company Filings, Investor Presentations, Equity Research, SNL, Capital IQ

# Water Peer Group

## Trading History Over the Past 5 Years

- Water utility valuations are also at or near all-time highs on an NTM P/E basis
- Peers group for JEA water selected based on the below screening criteria:
  - U.S. water utilities
  - Market capitalization of less than ~\$10Bn
    - Peer group includes all publicly listed U.S. water utilities except for American Water, which was excluded given its size relative to JEA water

### Water Peer Group



### Indexed Share Price Performance

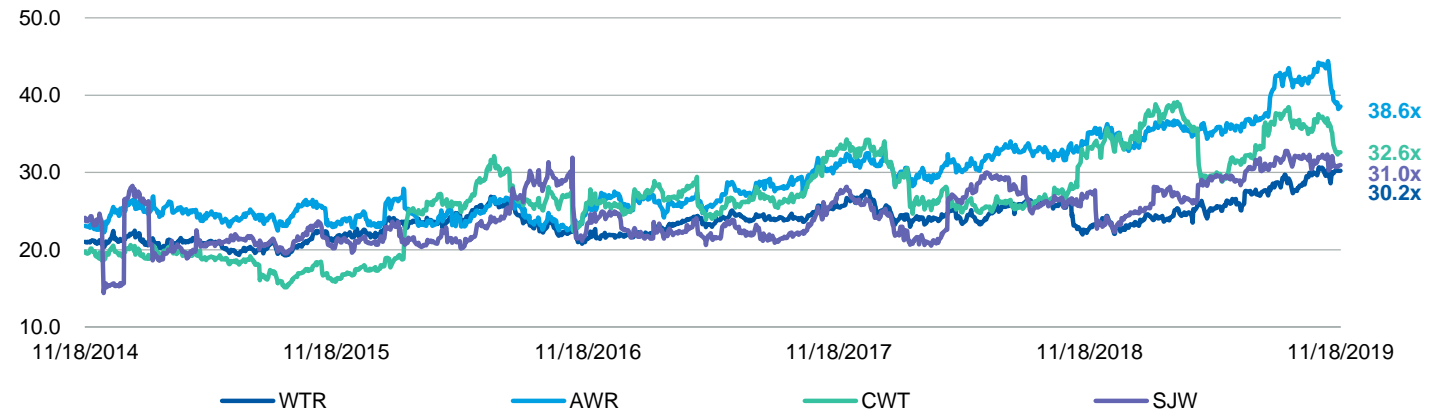
November 18, 2014 – November 18, 2019



Source: Capital IQ

### NTM P/E Multiple

November 18, 2014 – November 18, 2019



Source: Capital IQ

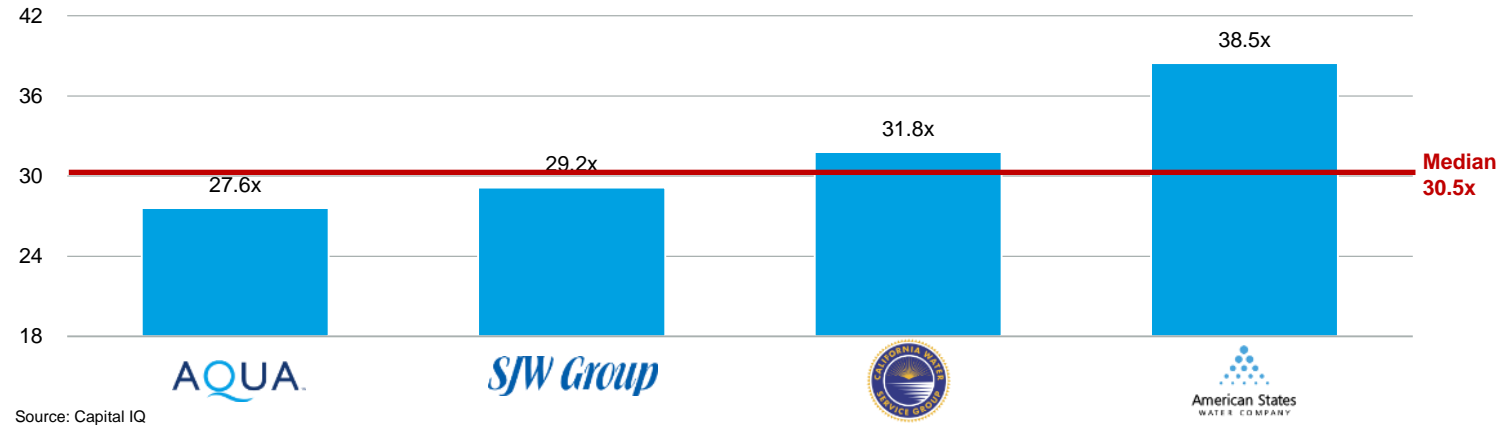
# Water Peer Group

## 2020 and 2021 P/E Multiples

- Water comps trade at a median 2020 P/E of 30.5x and 2021 P/E of 28.3x

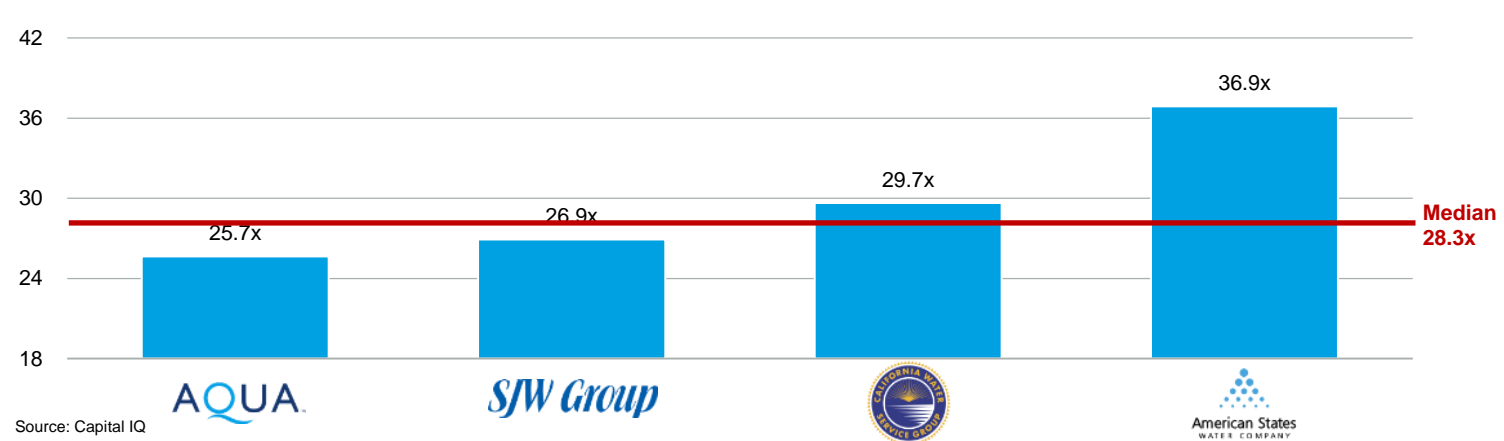
### 2020 P/E Multiples

As of November 18, 2019



### 2021 P/E Multiples

As of November 18, 2019

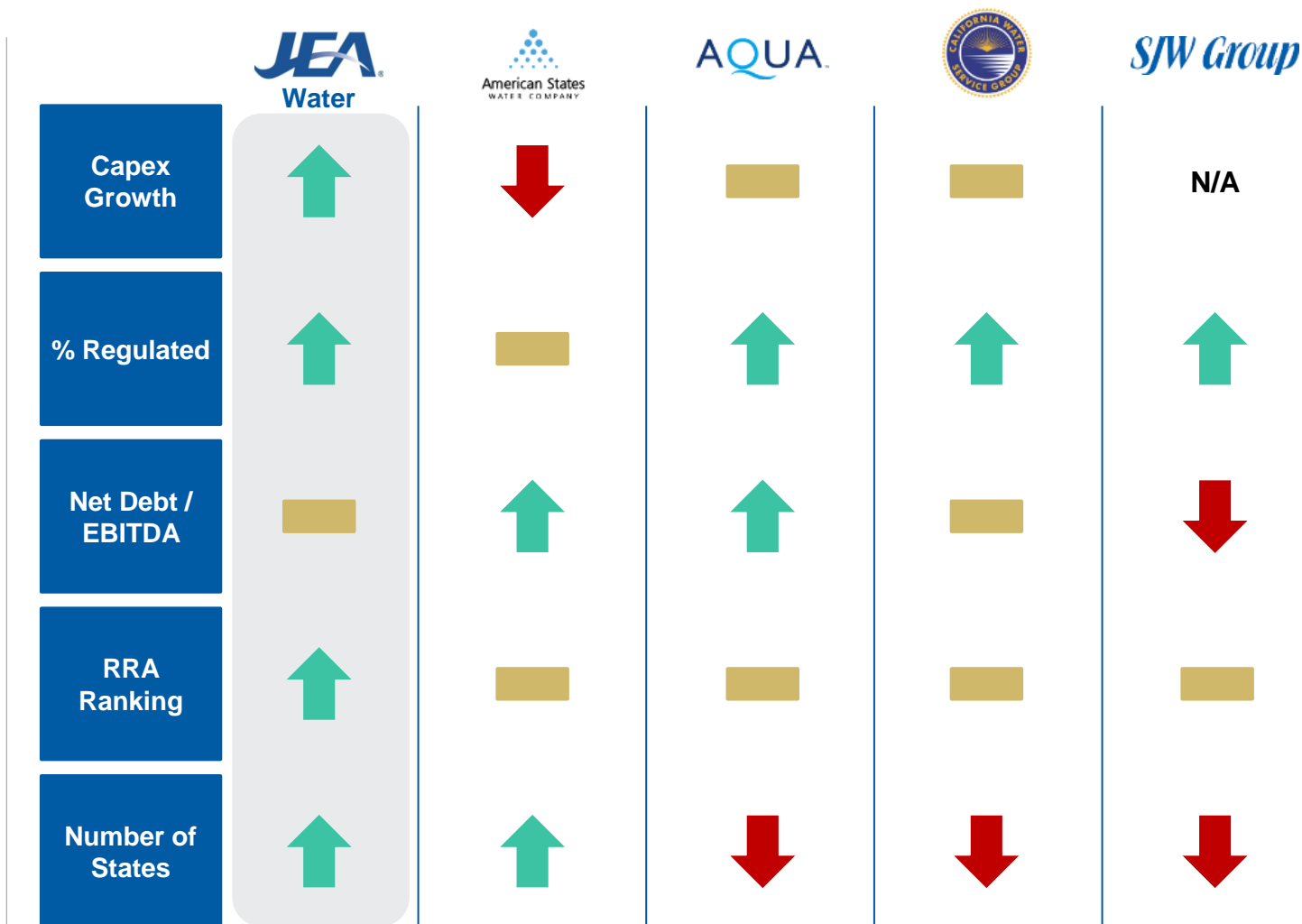




# How Does JEA Compare to the Water Peer Group?

## Benchmarking JEA Water to Water Peer Set in Select Categories of Particular Investor Focus

- We have analyzed JEA's water business versus its publicly traded peer set on key measures of value that utility investors focus on:
  - JEA water capital expenditure growth of ~9% over the next three years
  - 100% regulated business provides stable and predictable earnings
  - Low leverage compared to peers
  - Florida is a favorable regulatory environment with constructive regulatory commission dynamics
  - JEA's operations are in one state making any potential M&A more attractive from a regulatory approval perspective, thus the potential for investors to price in an "M&A premium"



Source: Company Filings, Investor Presentations, Equity Research, SNL, Capital IQ

# Key Issues That Could Impact JEA Trading Levels

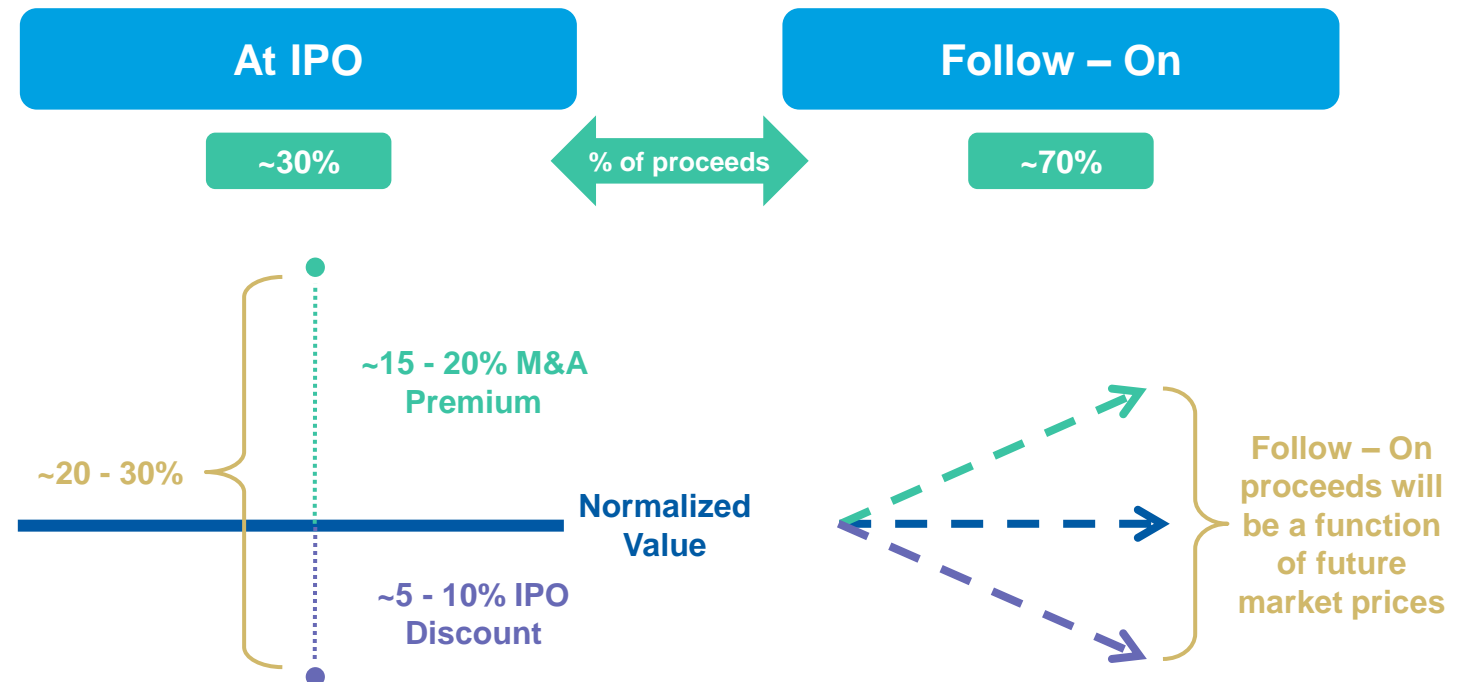
## Key Issues and Mitigants

	Key Issues	Mitigant
Committed Rate Stability Period	<ul style="list-style-type: none"> <li>In the event that JEA pursues an IPO and commits to the Committed Rate Stability Period outlined in the ITN, this results in three years of reduced net income versus an IOU construct without committed rate stability                             <ul style="list-style-type: none"> <li>Given utilities trade on NTM P/E multiples, the reduced net income resulting from the Committed Rate Stability Period is likely to have a direct impact on equity value</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Potential for JEA to modify minimum requirements to achieve similar outcomes to customers via upfront rebates and / or future share sales</li> </ul>
Lack of JEA Regulatory Track Record	<ul style="list-style-type: none"> <li>Given JEA is a municipally owned utility with rates set by the board of JEA, JEA's equity value could be negatively impacted given their lack of a regulatory track record of filing rate cases with the Florida PSC (i.e., Florida PSC has not previously determined rates for JEA's customers)</li> </ul>	<ul style="list-style-type: none"> <li>While the Florida PSC has not set rates for JEA historically, JEA engages with the Florida PSC on a regular basis as a part of it's day-to-day operations and is in constant dialogue with the commission, staff, and commissioners</li> <li>The Florida PSC is considered by investors to be one of the more constructive regulatory environments in the U.S., currently rated "Above Average / 2" by SNL Regulatory Research Associates</li> </ul>

# Resulting Valuation Divergence

## Divergence in Realized Value in Two Different Strategic Alternatives

- In a full sale of the Company, buyers incorporate a control premium
- In an IPO, shareholders own non-controlling interests; therefore, the company trades at a discount to a full company sale
- Once public, JEA could become a target for M&A
  - In the event a sale of the Company occurs, any M&A control premium would be shared between public equity shareholders and the shares still owned by the City at the time of the sale



- The value realized from an IPO and subsequent follow-on offerings would represent the sum of the IPO shares sold at an ~5 - 10% discount, and the value realized in a series of follow-on offerings, which would reflect the future trading levels of the publicly-listed shares
- This compares to a sale of JEA via a strategic process, where 100% of the proceeds are received at the time of the sale, and where there is likely a “control premium” of ~15 - 20%
- Thus, there is greater uncertainty to the City through the IPO route

SECTION 4

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# Benefits to the City and Residents of Jacksonville

# Public Appeal Considerations

## Advantages of an IPO to JEA and the City of Jacksonville

- An IPO of JEA provides many advantages the City of Jacksonville, the local citizens and to the organization itself

### Advantages of a JEA IPO

- Opportunity for Citizens to participate in ownership of JEA
  - Shares in JEA could be targeted to residents of Jacksonville and employees of JEA and to the extent desired, there could be discounts made to Jacksonville taxpayers / ratepayers / JEA employees
- Potential to craft special provisions via Golden Share or other corporate charter provisions to ensure headquarters remain in Jacksonville along with other local community objectives, etc.
- Provides JEA full access to the capital markets for financing of future growth plans
  - A publicly traded JEA can tap equity markets as needed to fund ongoing capital investments including expansion of JEA's renewable portfolio and other system wide improvements
- Provides JEA with a valuable currency that can be used to expand its electric and water systems to more fully serve the local community through acquisitions of neighboring utilities

SECTION 5

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# Next Steps

# Key IPO Workstreams

## Next Steps Prior to January 28, 2020 Board Meeting

### IPO Workstreams

- Confirm legal views regarding IPO feasibility
  - Ensure a legal framework exists that allows for JEA to enter the public market via an IPO
- Determine proposed solution to philosophical opposition of Florida Sunshine Law and SEC Gun Jumping regulations
- Determine proposed structure and mechanisms that facilitate JEA's IPO
- Refine valuation analysis
  - Continue detailed valuation work based on Respondent financial model in conjunction with capital markets views of potential initial public market trading levels
- Complete regulatory diligence
  - Establish timeline for regulatory milestones in conjunction with the IPO process

APPENDIX A

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# Public Comparables



# Comparable Companies

As of November 18, 2019

## Comparable Companies Analysis

As of November 18, 2019

Company Name	Price	Market Value \$MM	Aggregate Value <sup>(1)</sup> \$MM	Price/Earnings <sup>(2)</sup>		Dividend Yield %	Net Debt / 2019 EBITDA x
	Current 11/18/2019			2020 x	2021 x		
<b>Electric Comps</b>							
Portland General Electric Company	55.27	4,963	7,330	21.4	20.2	2.8	3.1
NorthWestern Corporation	69.30	3,515	5,686	19.5	18.7	3.3	4.9
ALLETE, Inc.	79.99	4,151	5,669	20.6	19.1	2.9	3.9
Otter Tail Corporation	48.88	1,950	2,648	20.3	19.5	2.9	3.2
Chesapeake Utilities Corporation	89.67	1,483	2,152	22.6	21.7	1.8	4.4
<b>Mean</b>		<b>3,213</b>	<b>4,697</b>	<b>20.9</b>	<b>19.8</b>	<b>2.7</b>	<b>3.9</b>
<b>Median</b>		<b>3,515</b>	<b>5,669</b>	<b>20.6</b>	<b>19.5</b>	<b>2.9</b>	<b>3.9</b>
<b>Water Comps</b>							
Aqua America, Inc.	43.35	9,385	10,477	27.6	25.7	2.2	2.1
American States Water Company	84.81	3,144	3,610	38.5	36.9	1.4	2.8
California Water Service Group	50.42	2,433	3,350	31.8	29.7	1.6	3.9
SJW Group	68.22	1,948	3,231	29.2	26.9	1.8	6.1
<b>Mean</b>		<b>4,228</b>	<b>5,167</b>	<b>31.8</b>	<b>29.8</b>	<b>1.7</b>	<b>3.7</b>
<b>Median</b>		<b>2,789</b>	<b>3,480</b>	<b>30.5</b>	<b>28.3</b>	<b>1.7</b>	<b>3.4</b>

**Notes:**

1. Aggregate Value = Market Value + Long-term Debt + Short-term Debt + Leases + Preferred Stock + Minority Interest - Cash

2. Based on I/B/E/S forward earnings estimates

## Legal Disclaimer

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