

PowerStream Merger and Acquisition: Decision Support

Prepared for the City of Markham

October 7, 2015



Proposed Transaction



- » The transaction has two components
 - » Three-way merger between PowerStream, Enersource, and Horizon
 - » Joint acquisition of Hydro One Brampton (formerly Brampton Hydro)
- » Would create the second largest regulated electricity distribution utility in Ontario by the number customers, nearly one million, and the third largest by asset value
- » **Not part of the Hydro One privatisation**

Navigant was retained to provide decision support to PowerStream's shareholders

Navigant's analysis addresses five critical questions

1. **Value and risks:** What is the value of the transaction to PowerStream shareholders and what are the associated risks?
2. **Cash flow:** What are the expected cash flows to PowerStream shareholders under the status quo and the proposed transaction?
3. **Liquidity:** What flexibility is there for PowerStream shareholders (jointly and individually) to divest their holdings and what is the associated impact of such divestment under the status quo and the proposed transaction?
4. **Acquisition price:** Is the purchase price for Hydro One Brampton consistent with market value?
5. **Relative value:** Are PowerStream shareholders receiving an appropriate share of the equity in the new company?

Navigant is a global provider of specialised professional services

Navigant is a specialised global expert services firm that helps clients create and protect value in the face of critical business risks and opportunities. Our experts have deep industry knowledge in energy, healthcare, construction, and financial services. Navigant has over 5,000 professionals located in more than 50 cities around the world, serving clients in more than 70 countries.

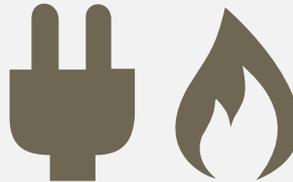
Client Profile



Nearly 300 financial services companies including many of the largest banks in the U.S.



Over 80% of AMLAW 100 firms



50 of the largest electricity and natural gas utilities globally



Over 300 hospitals, health systems & academic medical centers, and global life sciences companies



Federal, state and local government departments and agencies

Geographic Profile



Talent Profile

- » 5,000+ employees as of Dec. 31, 2014
 - › 1,700 expert / consulting professionals
 - › 2,700 business process management services professionals
- » Credentials include CFAs, CPAs/CAs, economists, engineers, physicians, PhDs, and attorneys
- » Niche areas of expertise combined in unique ways
- » Broad networks of experts and affiliates
- » Collaborative and nimble resource management

Navigant offers a full range of advisory services specifically targeted to the power and utilities and oil and gas industries

Navigant's Energy practice has over 400 consultants around the world and a breadth of capabilities to solve the most complex energy sector issues. Our consultants have substantial hands-on industry experience with unmatched expertise across the entire energy value chain. Our experts combine their business strategy knowledge with exceptional operational experience to deliver solutions that are technically and financially viable.

Market Intelligence	Strategy, Technology, and Organization	Markets, Customers	Operations & Asset Management	Financial, Risk and Regulatory
<ol style="list-style-type: none"> 1. Research 2. Benchmarking 3. Modelling 	<ol style="list-style-type: none"> 4. Business strategy, planning and implementation 5. Technology, strategy assessment, and advisory 6. Due diligence and M&A support 7. Innovation and R&D management 8. Technology and appliance standards, codes and testing 9. Reverse engineering and test facilities 	<ol style="list-style-type: none"> 10. Energy efficiency market research and characterisation 11. Energy efficiency evaluation, measurement, and verification 12. Energy efficiency program design 	<ol style="list-style-type: none"> 13. Energy markets advisory 14. Utility contracting support 15. Energy project development support 16. Integrated resources planning 2.0 17. Electric transmission planning and operations 18. Electric distribution planning and operations 19. End user energy strategy 	<ol style="list-style-type: none"> 20. Retail regulatory support 21. Energy subject matter expert litigation support



Key aspects of the business case are reasonable

- » Navigant **reviewed, analysed, and tested** the business case assumptions, and revised as appropriate

- » Hydro One Brampton purchase price
 - › Price for Hydro One Brampton **in within, but at the high end of, the valuation range**

- » Relative valuation of PowerStream, Enersource, and Horizon
 - › Relative valuation of PowerStream is **reasonable**
 - › PowerStream Solar is **likely undervalued**
 - As a result, management successfully negotiated that the PowerStream Solar assets be carved out and earmarked for only the existing PowerStream shareholders
 - Small negative impact to the expected PowerStream Solar cash flows

- » Synergies
 - › Synergies were **reviewed and determined to be reasonable** and achievable
 - Roughly half of the functional area synergies are likely conservative (i.e. synergies may be greater)
 - There are risks associated with the synergies, but PowerStream has a track record of delivering

Markham
Investment

\$38 to 43 million

Return on
Investment

7.7%



**Additional
Upside**

Strategic value, platform for growth, influence, financing, timing of capital, etc.

Shareholder
Value

+\$10 million

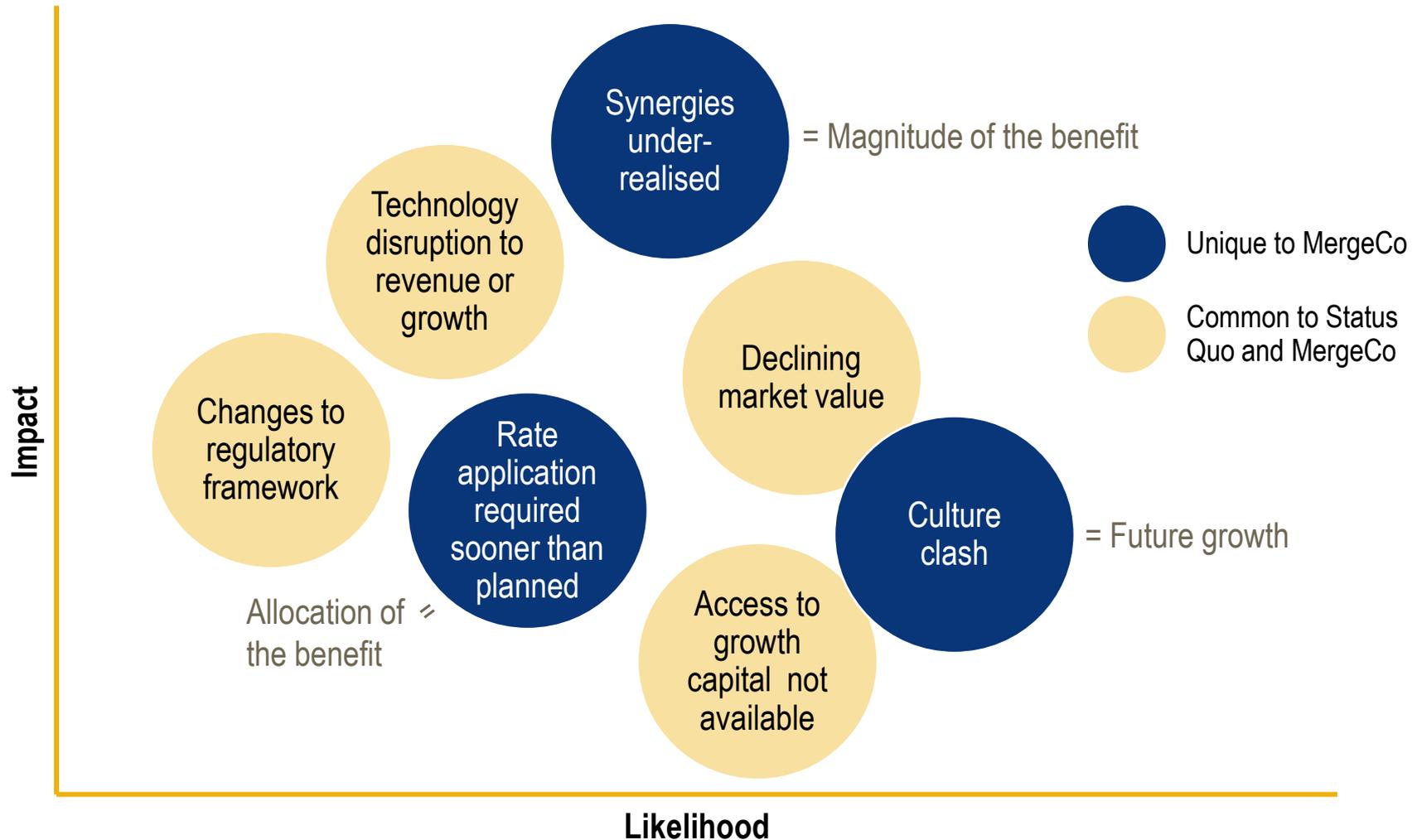


Customer
Benefit

\$64 million

\$24 to \$30 per year for an average Markham household

Navigant identified seven major risks, three are unique to the transaction



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