

SOUTHERN COMPANY

(as at May 31, 2020)



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Business Description:

The Southern Company, through its subsidiaries, engages in the generation, transmission and distribution of electricity. It operates in four segments: Gas Distribution Operations, Gas Pipeline Investments, Wholesale Gas Services and Gas Marketing Services. The company also constructs, acquires, owns and manages power generation assets including renewable energy facilities and sells electricity in the wholesale market, distributes natural gas in Illinois, Georgia, Virginia, and Tennessee, as well as provides gas marketing services, wholesale gas services and gas pipeline investments operations. It owns and/or operates 30 hydroelectric generating stations, 24 fossil fuel generating stations, 3 nuclear generating stations, 13 combined cycle/cogeneration stations, 42 solar facilities, 10 wind facilities, and 1 biomass facility and constructs, operates and maintains 75,585 miles of natural gas pipelines and 14 storage facilities with total capacity of 157 Bcf (billion cubic feet) to provide natural gas to residential, commercial, and industrial customers. The company serves approximately 8 million electric and gas utility customers. It also provides products and services in the areas of energy efficiency and utility infrastructure. In addition, the company offers digital wireless communications services with various communication options, including push to talk, cellular service, text messaging, wireless Internet access and wireless data. The Southern Company was incorporated in 1945 and is headquartered in Atlanta, GA.

Investment Thesis:

- **Powerful Scale:** The company's regulated utilities benefit from a joint dispatch agreement where generation assets are linked through an inter-state transmission network. This facilitates economic sales of electricity through the traditional operating companies' territories, lowering costs for its customers.
- **Renewable Energy Expansion:** Southern Power's operations facilitate expansion into renewable generation markets, allowing it to benefit from ongoing tax incentives and state renewable mandates.
- **Regulated Returns on Equity:** Regulated returns on equity provides relative safety of future earnings and cash flow growth; the company earns a large portion of its income from regulated operating segments. Public utility commissions in the operating territories of Southern Company's traditional integrated utility businesses are considered to be some of the most constructive in the U.S. from an investor's point of view. We believe these positive relationships should minimize risk to the company achieving its allowed regulated returns and enhance the ability to grow rate base from consistent capital projects.
- **Attractive Dividend:** With global interest rates at record lows, the Southern Company enjoys reaping the

benefits of regulated utilities' dividend yields which are now much more attractive than yields on government bonds.

Industry Drivers/Trends:

- **Low-to-No Carbon Goals:** Since 2007, Southern Company has reduced GHG (greenhouse gas) emissions 44% by transitioning its electricity generation mix to include more natural gas, renewables, and nuclear energy source. The company's goal is to reach 50% reduction in emissions by 2030 and low-to-no carbon operations by 2050.
- **Research and Development:**
 - Southern Company is an Industry leader in conducting robust research, development and deployment of new, innovative energy technologies.
 - Greenhouse gas emissions reduction is a major focus of the company's research and development organization, which has a historic record of technology advancement that goes back to the 1960s.
- **Investing in Innovation:** Southern Company is a founding partner of Energy Impact Partners (EIP), a \$700 million venture capital fund that invests in early stage technology companies impacting the energy and utility industries. EIP has invested in 23 portfolio companies since its inception in 2016 and already has achieved several successful exits. Collaborating with the EIP portfolio companies helps Southern Company remain on the cutting edge of disruptive technology while uncovering new revenue opportunities and identifying potential partnerships.
- **Advancing Technologies:**
 - Fuel cells: The Southern Company's advancement of distributed energy resources includes the demonstration of a Bloom Energy fuel cell in a landfill gas operation, helping pave the way for the large-scale use of a new clean energy solution.
 - Advanced nuclear: The company is developing next-generation nuclear technologies that could produce carbon-free, sustainable energy at low cost with superior safety and new business opportunities.
 - Carbon capture: At the National Carbon Capture Center, the company has tested more than 60 technologies and helped reduce the projected cost of carbon capture by one-third. They are building new infrastructure to expand carbon capture testing for natural gas power plants.
 - Energy storage: The company began commissioning the first test systems at the Energy Storage Research Center, an industrywide

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resource where third-party innovators can accelerate the development and deployment of a full spectrum of energy storage systems.

- Grid modernization: The company has installed approximately 700 pole-mounted edge-of-network grid optimization (ENGO) devices to demonstrate significant grid efficiency from the resulting tighter voltage control.
- Electric transportation: The company works with industry leaders and manufacturers to drive electric transportation growth on the road and in industry. They are actively engaged in bringing more direct current fast-charging infrastructure to their service territory.

Major Competitors:

- NextEra Energy, Inc.
- CenterPoint Energy, Inc.
- Exelon Corporation
- American Electric Power Company, Inc.
- FirstEnergy Corp.
- Duke Energy Corporation

Barriers to Entry:

- **Regulation:** The company's concentration of earnings from regulated activities and its relationships with regulators would be challenging for new entrants to replicate.
- **Contracted Revenues:** The Southern Power segment should provide incremental growth opportunities at relatively low risk, with projects backed by tax incentives and long-term contracts.
- **Diversity of Assets:** Southern Company maintains a diverse fleet of generation assets across geographic regions, fuel and technologies that mitigate against individual market externalities.

Officers & Directors:

Benoit Potier, Chairman and Chief Executive Officer; **Michael Graff**, Executive VP Americas and Asia Pacific; **Francis Jackow**, Executive VP Europe, Africa and Middle East; **Fabienne Lacorvaisier**, Chief Financial Officer; **Jean-Paul Agon**, Lead Director



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Financial Summary:
Income Statement (USD millions, years ended December 31st)

	2015	2016	2017	2018	2019
Revenue	17,489	19,896	23,031	23,495	21,419
COGS	9,811	11,366	13,116	13,842	11,792
Gross Profit	7,678	8,672	10,173	9,653	9,627
Net Profit	2,421	2,493	880	2,242	4,754
Earnings per Share	2.60	2.57	0.84	2.18	4.53

Balance Sheet

Total assets	78,318	109,697	111,005	116,914	118,700
Long-term debt	24,688	42,629	44,462	40,736	41,798
Total equity	20,710	24,876	24,491	25,014	27,796

Statement of Cash Flow

Cash from operations	6,274	4,894	6,394	6,945	5,781
Cash from investing	(7,280)	(20,047)	(7,190)	(5,760)	(3,392)
Cash from financing	1,700	15,725	951	(1,813)	(1,930)
Dividends paid	(1,959)	(2,104)	(2,300)	(2,425)	(2,570)

Key Ratios and Figures (%)

Gross profit margin	43.9%	43.6%	44.2%	41.1%	44.9%
Return on assets	3.1%	2.3%	0.8%	1.9%	4.0%
Long-term debt / equity	119.2%	171.4%	181.5%	162.9%	150.4%

Source: Southern Company 2019 Annual Report; MorningStar


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