



# Transforming Cadent

## Cadent and Quadgas Annual Credit Investor Update

**25 July 2019**

Time: 15:30 UKT / 10:30 EDT

United Kingdom: +44 3333000804

United States: +1 6319131422

PIN: 38067144#

**Cadent**  
Your Gas Network

# Today's agenda

- **Introduction, today's speakers**
- **Strategic overview**
- **2018-2019 Financial performance ahead of plan**
- **Cadent's Transformation underway**
- **Building momentum with improving performance**
- **An ambitious plan for 2021 to 2026**
- **Supporting the energy transition**
- **Strong financing profile**
- **Closing remarks and Q & A**

# Speaking today



## **Steve Hurrell**

*Interim Chief Executive Officer*

Following the decision by Chris Train to retire in February 2019 the Board asked Steve to take up the CEO role on an interim basis until a long term successor could be appointed. Steve first joined as the CFO of Cadent Gas Limited in April 2017. Prior to Cadent, he served as the CFO of Airwave Solutions Limited, where he was instrumental in redirecting the focus of the business and its cost base to deliver efficiency, thereafter successfully refinancing the Group's +£2billion of debt. In addition to Airwave Solutions Limited, Steve has worked at Tube Lines Limited and Jarvis Plc.



## **Julian Allsopp**

*Interim Chief Financial Officer*

Julian has been Financial Controller of Cadent and the former Gas Distribution division of NGG since 2016. Since joining National Grid in 2007, Julian has held a number of senior roles which supported many of our functional areas. Before this, Julian worked in a number of Financial Planning, Reporting and Analysis roles in the wider industry.



## **Rob O'Malley**

*Head of Treasury*

Rob joined Cadent in April 2017 following the change of ownership, as Head of Treasury, he has led all of the groups financing activity since then and also has responsibilities for Insurance, Pension Risk and engaging with Ofgem on financial aspects of the price review. Prior to joining Cadent, Rob was Head of Corporate Finance at Electricity North West where he held a similar role for ten years. In his earlier career Rob was a corporate relationship manager for NatWest.

# Strategic overview

## A solid performance in a challenging year

EBITDA £116m stronger reflecting operational cost savings and new recognition of customer funded work under IFRS15.

Net Debt to RAV and other metrics remain within the thresholds of monitored rating agency and debt covenant ratios.

We have experienced significant historical challenges in respect to multi occupancy high rise buildings.

We have taken action to address these issues.

We have established a new team in our London network to improve the services for our customers and are making a payment of £8.9m to the Energy Savings Trust to recognise the impact of these issues on our customers

## Increasing the pace of transformation

New CEO Steve Fraser joining later this year. Howard Forster joined as Chief Operating Officer Four new Network Directors appointed.

Set out a clearer Vision and higher expectations of performance and customer experience.

Cadent has pledged to contribute a share of profits to customers and will be launching a new Cadent Foundation to deliver this.

## Updated business plan focused on delivering key outputs

Updated 19/20 and 20/21 plan reflects higher Capex costs and some Pass Through expenses, that will be recovered in 2021. Good progress on many areas of RIIO-GD1 performance for customers but increased focus on the remaining areas of challenge.

First draft RIIO-GD2 plan in submitted to Ofgem's Customer Challenge Groupon 1 July signalling headline price reduction and ambitious plan for GD2. Final plan to be submitted in December

Shareholder consortium now acquired the balance of National Grid PLC's former residual 39% shareholding

Ofgem set out clear expectations of lower returns to equity for RIIO-2.

Liquidity improved and rate risk reduced in past year with £1.5bn of term debt raised

New 5-Year Bank Facilities recently signed by both Cadent and Quadgas Midco





## Highlights of 2018-2019 Financial Report

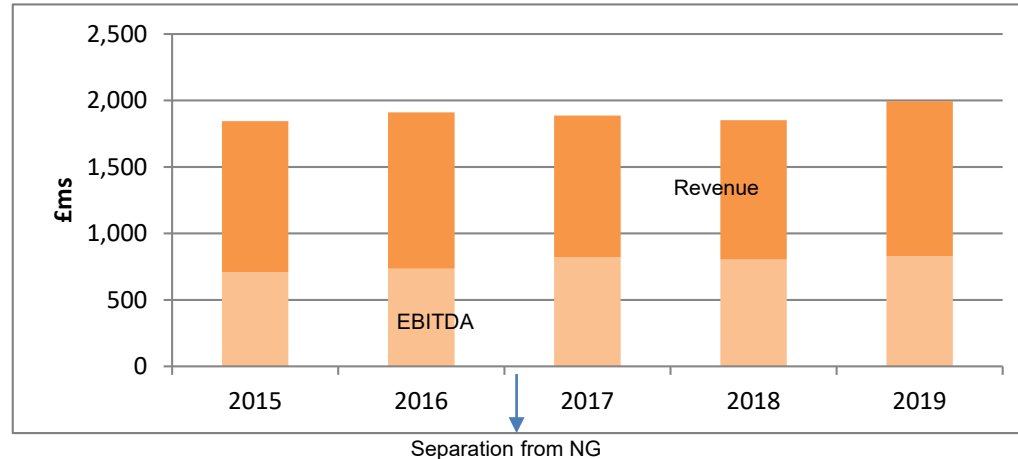


# Overview

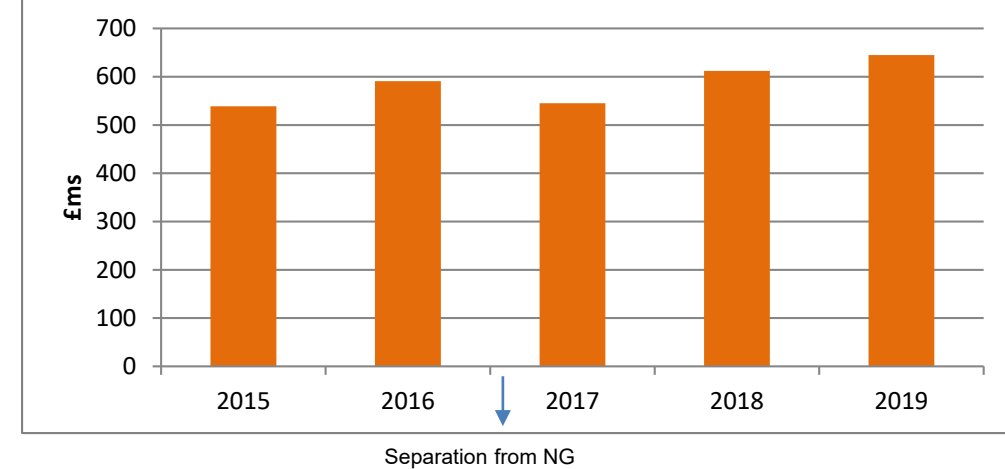
<b>March 2019 Year End</b>	Financial Highlights	Revenue <b>£1,995m</b>	EBITDA <b>£1,165m</b>	Operating Profit <b>£813m</b>	Capital Investment <b>£736m</b>
	Financial Ratios	RAV <b>£9.7bn</b>	Net Debt / RAV <b>63%</b>	FFO / Net Debt <b>9.6%</b>	Int Cover <b>2.9x</b>
<b>March 2018 Year End</b>	Financial Highlights	Revenue <b>£1,852m</b>	EBITDA <b>£1,049m</b>	Operating Profit <b>£724m</b>	Capital Investment <b>£612m</b>
	Financial Ratios	RAV <b>£9.5bn</b>	Net Debt / RAV <b>62%</b>	FFO / Net Debt <b>9.2%</b>	Int Cover <b>3.0x</b>

# Cadent financial highlights

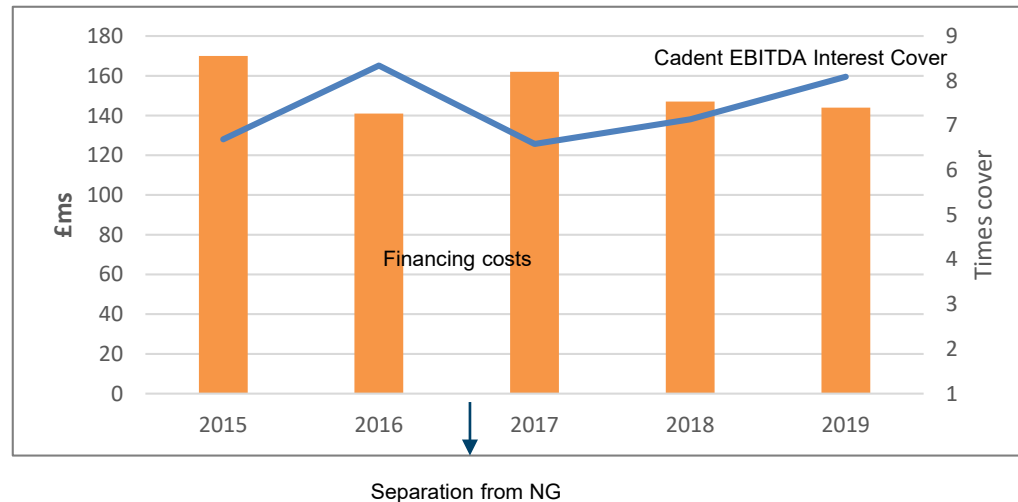
## Increased Revenue and EBITDA in 2019



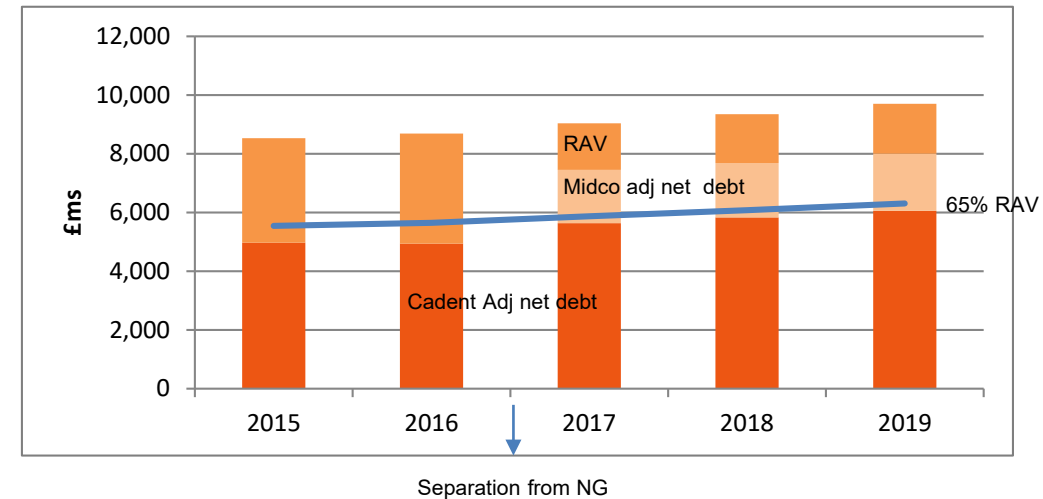
## Highest ever Capital Expenditure delivered



## Financing costs lower after 2017 restructuring



## Cadent adjusted net debt growing in-line with RAV



Source: 2015-17  
National Grid Gas  
Distribution & Cadent  
Regulatory Accounts  
2018 onwards Cadent  
Gas Limited annual  
report

# Exceptionals and Impairment –Midco level

- Goodwill of £1,940 million at Quadgas MidCo (2018: £3,312 million) has decreased due to an impairment charge of £1,372m during the year which was recognised within exceptional items in the income statement (2018/19 Exceptional costs £1,405m, 2017/18: £20m).
- The impairment was driven by Ofgem announcements regarding RII0-2 during the course of the year, which had an impact on the valuation of the future recoverable amount of the investment in Cadent. When these proposed assumptions changes were factored in to the value in use calculation, together with the latest business plan cash flows, the value in use was reduced and therefore an impairment adjustment was required.
- The remaining £33m of exceptional costs within operating profit comprise amounts relating to\*:-
  - Separation activities - £16m (2017/18 £20m)
  - Restructuring costs - £3m (2017/18 nil)
  - Guaranteed minimum pension payments (equalisation of guaranteed minimum pension benefits) - £14m (2017/18 nil)

Cadent announced on 13 May 2019 that it was offering a voluntary redundancy programme for all managers and staff. The cost of this programme cannot be determined with certainty at this stage as the programme is subject to employee consultation with the period of consultation recently closed. Management's current best estimate is a cost between £15m - £20m.

*\*Taken from Note 6 Exceptional items and remeasurements Opco accounts, remaining details on this page from Exceptional items note in Midco accounts*



Transformation underway

**Cadent**  
Your Gas Network

# Increased regional focus



**Jenny Moten**  
Director of North West  
Network



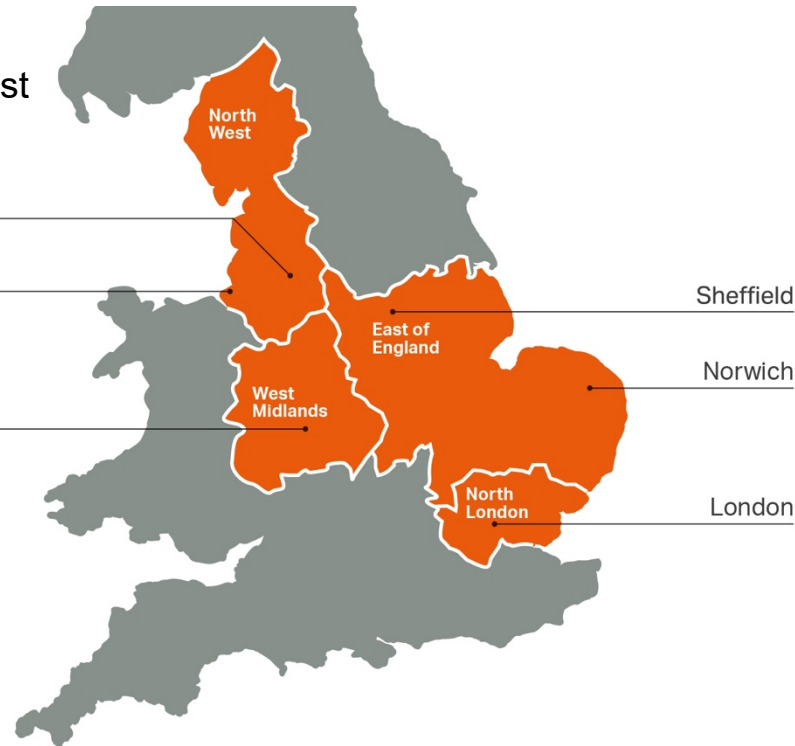
**Howard Forster**  
Chief Operating Officer



**Darren Elsom**  
Director of East of  
England Network



**Kate Jones**  
Director of West  
Midlands Network



**James Harrison**  
Director of North  
London Network



# Early results from regional pilot schemes are positive

Unclear accountability for outcomes

Decision making is remote from our customers

Lack of flexibility in our workforce

Poor planning and logistics



**Focus of Cadent networks is now on accountability for their own local assets and customers**

**Regulatory networks to be accountable for customer, performance and financial outcomes.**



**More decision making at lower levels**

Decisions to be made with a centrally defined policy framework of policies and control, using local insight and knowledge



**Holistic view at network level with a joined up strategy**

A network strategy that considers all the work required within a network and determines the best resourcing choices and flexibility.



**Improved Planning and coordination**

Placing control for all aspects of local resourcing, e.g. excavation and restoration, with local teams



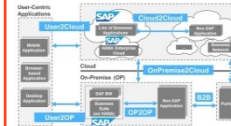
# IS Separation to deliver lower costs

## Critical Network Infrastructure



- Deliver the separation of the Critical National Infrastructure services from NG including the Telemetry networks

## Managed applications



- Transition of all applications and associated infrastructure from National Grid to Cadent

SecureWorks

aws

HCL



vodafone

verizon



Delivery partners

## Networks



- Deliver the Network and Gateway Infrastructure for Cadent and separate from National Grid

## Cyber Security Operations Centre



- Security monitoring and auditing capability
- Threat and vulnerability management
- User and Entity Behavior Analytics
- Active defense & Forensics



**Cadent**  
Your Gas Network

C-SCOPE  
MXL2

**Building momentum with improving performance**

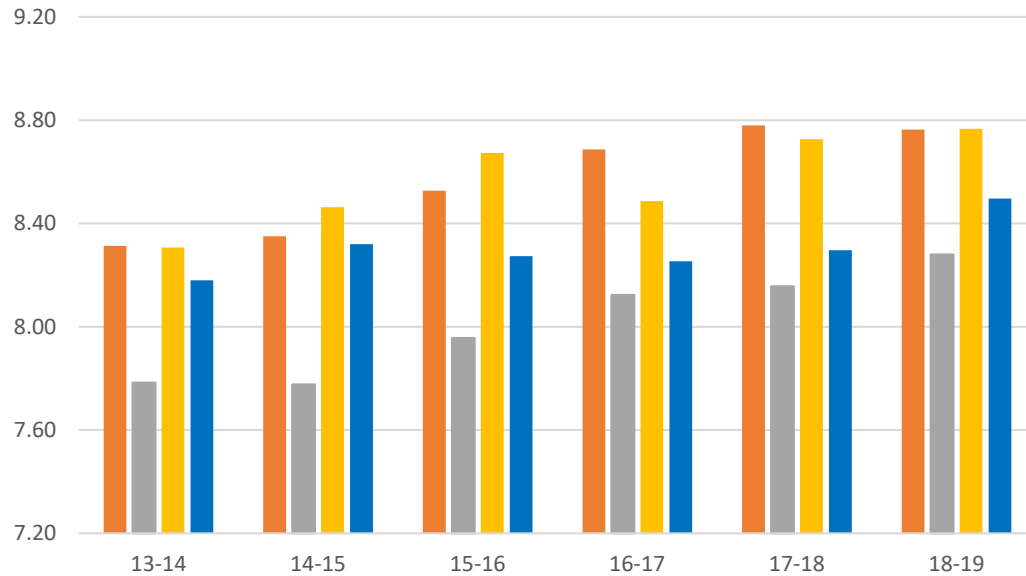
# We expect to achieve 60 of 61 Output commitments in GD1

Output Category	Output Measure	Unit	East of England	North London	North West	West Midlands
Safety	Call & attending response times & various	Various				
Connections	Guaranteed Standards Performance	90% or above				
Customer Service	Planned Work C-Sat	Out of Ten				
	Connections C-Sat					
	Emergency Response and Repair C-Sat					
	Complaints Handling	Metric Score				
	Stakeholder Engagement	Out of Ten				
Network Reliability	Maintaining Operational Performance	Various				
	Interruptions - planned	Volume & Duration				
	Interruptions - unplanned	Volume & Duration				
Connections	Introduce distributed gas entry standards	Connections				
Social Obligations	Fuel Poor Connections	Number				
	Carbon Monoxide Awareness	Annual update				
Environmental	Shrinkage gas volumes & renewable connections	Volume and number				

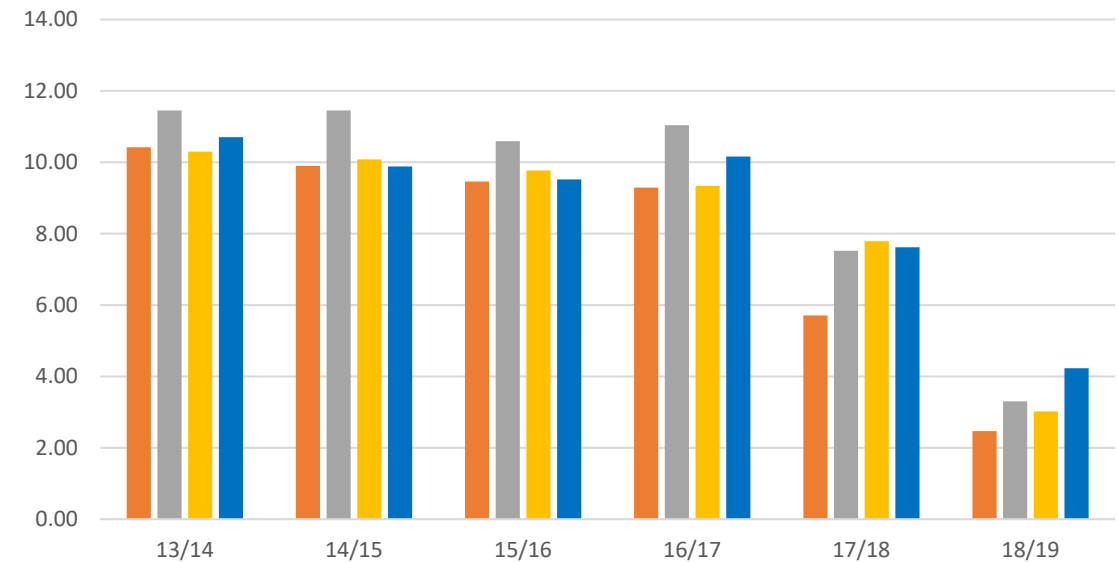


# Improving satisfaction and reducing complaints

Cadent Average CSat by Network



Complaints Scores by Network





**An ambitious plan for 2021 to 2026**



# Transforming experiences

Customers. Communities. Employees.

**Cadent** Your Gas Network



**Our vision is to set standards that all of our customers love and others aspire to**



## The outcomes our customers value

**Delivering a resilient network to keep the energy flowing safely and reliably**

**Providing a quality experience to all our customers, stakeholders and communities**

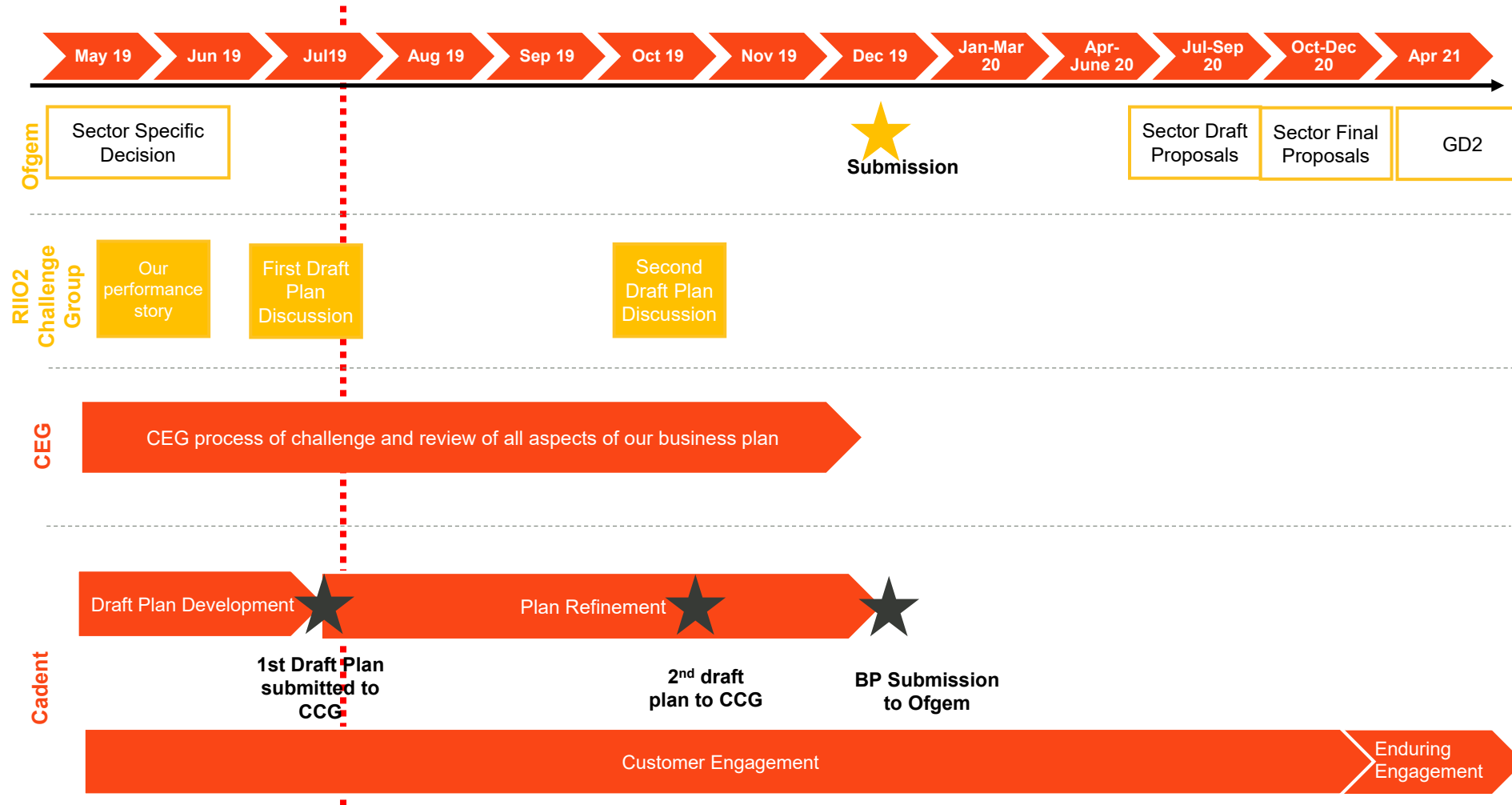
**Improving the environment and tackling climate change**

**Trusted to act for society**

**Our most stretching and tailored output commitments ever**



# Timetable for the RII0-GD2 business plan submission



CEG = Cadent's independent Customer Engagement Group CCG = Ofgem's central Consumer Challenge Group

# Increased use of volume linked uncertainty mechanisms proposed in the July plan to reduce risk to Cadent and protect customers

Cost risk	RIIO-1 treatment	Cadent Business Plan proposal for RIIO-2
Streetworks	Re-opener	Re-opener (subject to materiality)
Obligated reinforcements	Re-opener	Volume driver
Entry enablement	Re-opener	Volume driver
Multi-occupancy buildings	Mid-period review	Re-opener (subject to materiality)
Smart Meter roll out costs	Re-opener	Volume driver (with a pass-through mechanism for system integration)
Real price effects (cost increases above CPIH)	Mechanism proposed by Ofgem	New for RIIO-2

Under the RIIO framework, a Re-opener requires Cadent to apply after incurring costs, not originally allowed in the price review, to demonstrate that circumstances have changed and the costs incurred are above a materiality threshold and incurred efficiently.

A volume driver however establishes the principle of the costs legitimacy and the allowance level and simply adjusts allowances to actual volumes incurred through the annual update of allowances.



Delivering greener energy for homes, industry and transport, providing a springboard for economic growth and job creation.

**Supporting  
the energy  
transition**

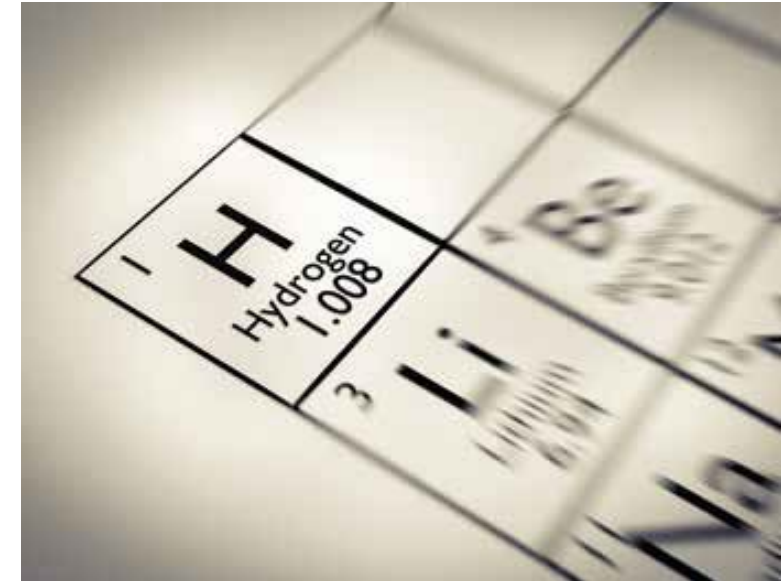


# Hydrogen to play a future role in energy policy

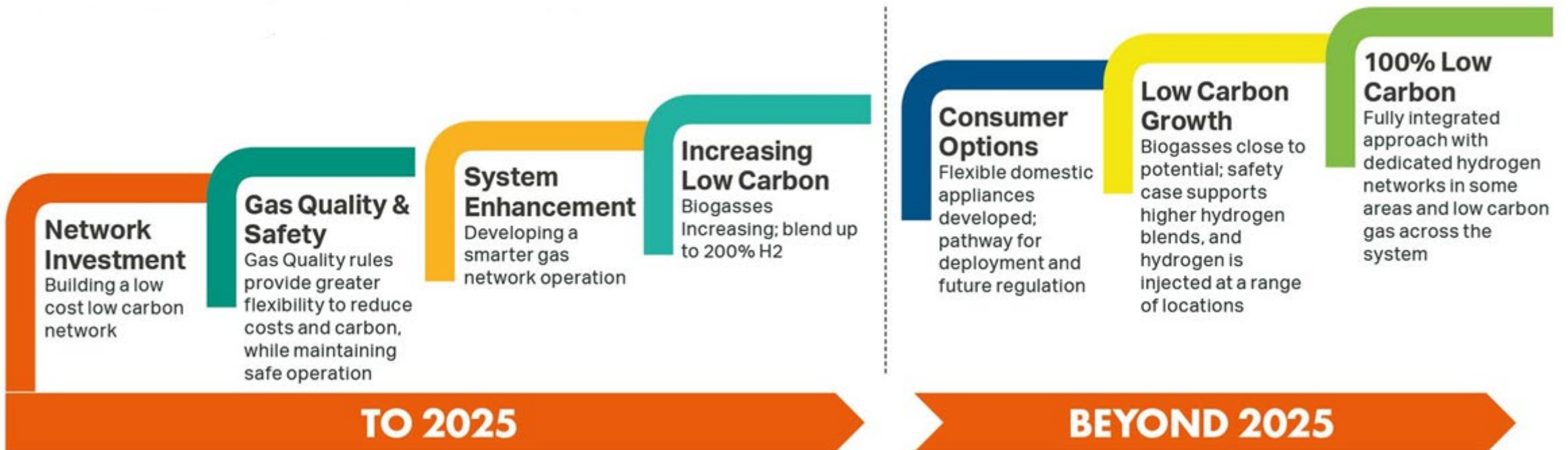
The Committee for Climate Change's report in May 2019 highlights the role hydrogen could play in the UK's energy transition

The UK has already committed to reduce greenhouse gas emissions by 80% by 2050 from 1990 levels and the Government has now set out its intent to legislate to deliver a net-zero target by 2050 based on the Committee for Climate Change's ('CCC') recommendation.

The scale of this climate change challenge is immense and urgent action is needed in the next few years to ensure pathways are available to deliver a low cost, secure and sustainable energy transition for future customers. The core areas where Cadent is taking steps to create such pathways are heat and transport. The CCC recognised in their recent report the key role lower carbon gas and hydrogen could play in delivering the most cost-efficient and secure pathway to decarbonise heat



# Gas decarbonisation pathways





# Strong financing profile



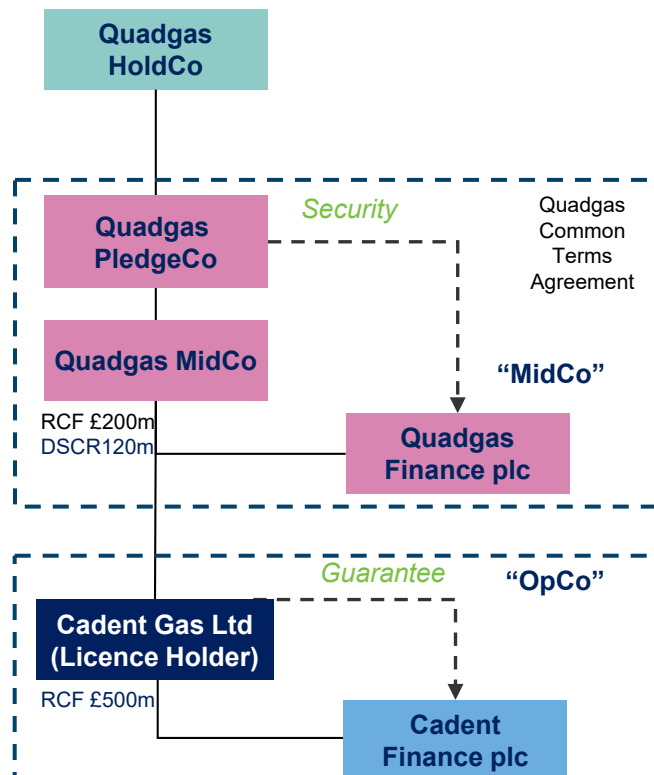


# Financing structure at 31 March 2019

## Ratio tests

Quadgas MidCo	Trigger	Default	31 Mar 19
RAR	85.5%	92%	82%
Adj. ICR	1.1x	1.0x	2.9
Cadent OpCo RAR	65%	70%	63%

Cadent Gas	Bond Programme Default	31 Mar 19
RAR	70%	62%



### Cadent Gas Limited/ Cadent Finance Plc ("Opco")

£300m<sup>1</sup> Bank Loan Libor + 0.65% 07/24  
 £650m 1.125% 2021 bond  
 £360m EIB IL loans 2023-24  
 €750m 0.625% 2024 bond (£638.3m swapped at 1.175)  
 £400m<sup>2</sup> EIB Loan 2027 (swapped to IL)  
 £850m 2.125% 2028 bond  
 £100m USPP Note 2.79% 2031  
 \$200m USPP Note 4.07% 2031 (£156m swapped at 1.2820)  
 JPY10bn Note 1.02% 2033 (£68.7m swapped at 145.63)  
 £200m USPP Note 2.89% 2034  
 £700m 2.625% 2038 bond  
 £300m IL notes 2039 and 2048  
 £800m 2.75% 2046 bond  
 £225m USPP Note 2.99% 2039  
 £300m 3.125% 2040 bond

£300m Letters of Credit Pension Scheme

<sup>1</sup> Bank Loan shown at reduced value as at July 2019. £93m repaid from 31 March 2019

<sup>2</sup> £400m IL Swaps had a mark-to-market at 30/6/19 of £465m of which £46m is accretion included in net debt to RAV ratios. The balance is £19m, around 0.2% of RAV and so not material

### Quadgas Midco Limited/ Quadgas Finance plc "Midco"

£220m Bank Loan Libor+ 1.20% 2024  
 \$50m USPP Note 3.66% 2024 (£37.7m swapped at 1.3280)  
 £149m USPP Note 2.96% 2027  
 £103m USPP Note 3.07% 2029  
 £350m 3.375% 2029 bond  
 £70m USPP Note 3.29% 2030  
 £40m USPP Note 3.18% 2032  
 £225m USPP Note 3.42% 2033  
 £77m FRN Libor+1.8% 2037  
 £125m Note 3.604% 2037  
 £40m IL Note 0.288% 2037  
 £75m IL Note 0.125% 2037  
 £266m IL Note 0.315% 2042  
 £75m IL Note 0.125% 2042

# £1.3bn of Financing activity in FY 18/19, with proceeds used to de-risk Opco and Midco.

## New 5-year Bank facilities arranged July 2019

### Opco Financing activity

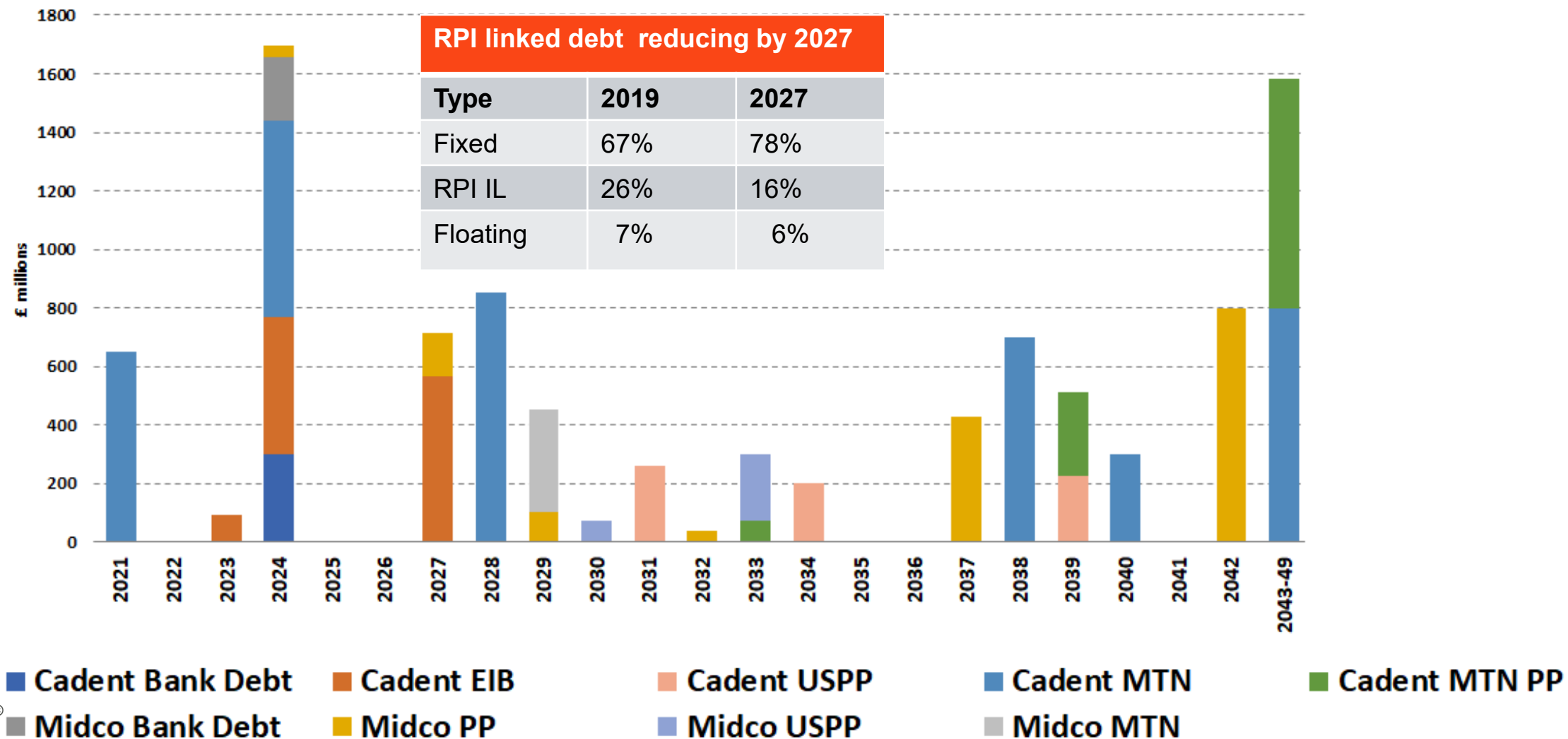
- Cadent Finance issued c. £69m of JPY PP notes in July 2018, proceeds used to provide additional liquidity.
- Cadent Finance issued c. £680m of USPP notes (GBP and swapped USD) in March 2019, proceeds of which used to repay £400m of medium-term bank debt at Opco and to provide additional liquidity.
- In July 2019, Cadent Gas refinanced its Bank facilities, due 2021: £300m 5yr term debt (reduced from £393m), £500m RCF and £300m LOC in favour of the Pension scheme.

### Midco Financing activity

- Midco Finance issued £295m of USPP notes in August 2018, and £350m of public notes off the EMTN programme in September 2018; the proceeds were used to repay c. £646m of Midco medium-term bank debt at Midco.
- In July 2019, Quadgas Midco refinanced its Bank facilities, due 2022: £220m 5yr term debt, £200m RCF and £120m DSR liquidity facility.

# Balanced debt maturity profile

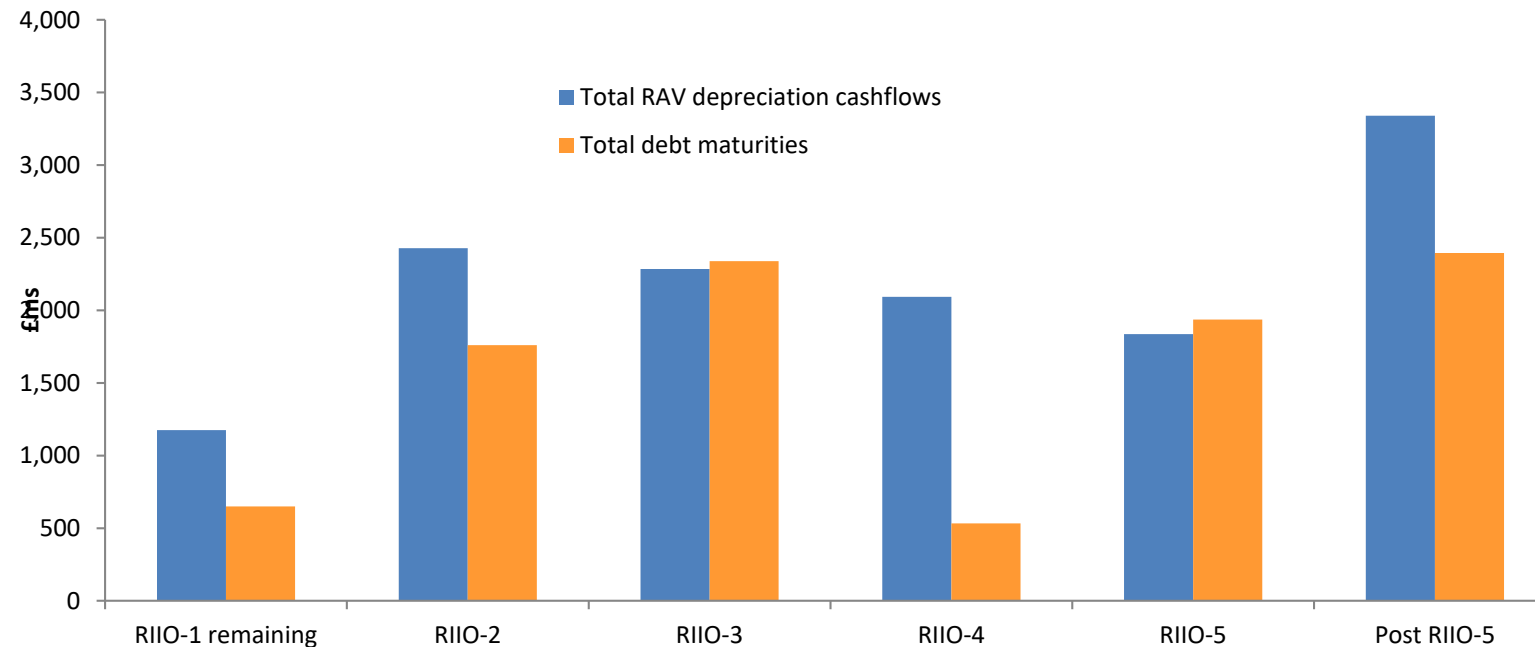
(including projected RPI linked accretions)





# Debt maturities align with regulatory asset lives

The chart below shows the debt maturity profile and current RAV depreciation cashflows in each RIIO period.



- We consider that the debt maturities should be broadly fundable from related regulatory depreciation to mitigate long-term risk of asset stranding
- Analysis indicates that the maturity capacity, for refinancing existing debt is at RIIO-2 and RIIO-4. New debt to fund new asset growth, including mains replacement, could be for longer, in line with the weighted average asset lives for new assets.



# Cadent

Your Gas Network

## Closing remarks and Questions

Steve Hurrell  
Julian Allsopp  
Rob O'Malley

[steve.hurrell@cadentgas.com](mailto:steve.hurrell@cadentgas.com)

[julian.allsopp@cadentgas.com](mailto:julian.allsopp@cadentgas.com)

[rob.o'malley@cadentgas.com](mailto:rob.o'malley@cadentgas.com)

# Cadent

Your Gas Network