



## Stock story: WEC Energy

Strategic investments for sustainable growth and decarbonisation

For those wondering why it's a compelling time to be invested in US regulated utilities, investors should look no further than WEC Energy Group (WEC), a US regulated utility with a track record of strong performance on earnings, efficient capital expenditure and sustainable growth.

The Wisconsin-based WEC is undertaking the largest capital program in the company's history, fuelled by three structural investment themes -- grid modernisation, energy transition and digital infrastructure expansion. For the US electricity utility sector, these investment themes are projected to drive nearly \$800 billion of investment over the next five years and underpin long-term earnings growth of more than 5% per annum. WEC is expected to be a major participant in these themes, investing \$28 billion of capital and generating an estimated 7% of annual earnings growth until the end of the decade.

### WEC is well-positioned for investment to support a structural change in its business

For a regulated utility, capital investment is an important driver of earnings. Under a regulatory framework, the company can deploy investment to grow its capital base and then earn an agreed rate of return on this base. Looking at the three structural trends expected to fuel capital spending plans, and earnings, for WEC, there are some key drivers behind the shift:

**Grid modernisation and reliability.** WEC Energy is allocating more than a third of its five-year capital plan to upgrade and modernise its electricity transmission and distribution infrastructure across Wisconsin and its other service territories. Driving this are ageing grid assets that no longer meet modern load demands, increased needs to accommodate distributed energy sources, and swelling demand from industrial load and data centres. Investments to enhance grid resiliency are also enabling WEC to respond to extreme weather events and growing regulatory emphasis on reliability standards.

**Renewable energy and clean power generation.** To meet its ESG targets of an 80% reduction in carbon emissions by 2030 and net-zero by 2050, WEC is aggressively expanding utility-scale solar, battery storage

### Spotlight: I-94 corridor

The Interstate 94 road corridor that runs through WEC's service territory is just a microcosm of these structural trends currently unfolding across the United States. The stretch of highway between Chicago and Milwaukee has become a hotbed for economic growth in the region. Major global consumer brands, pharmaceutical and technology companies have quickly established a presence in the area, building large industrial and manufacturing facilities. Microsoft is one of those companies, investing \$3.3bn to construct a data centre campus that will expand its cloud and AI capabilities by 2026.

and wind generation capacity to replace retiring coal units. Stakeholder interest in clean energy procurement, particularly from large commercial and industrial customers, is expected to drive a quadrupling of WEC's carbon-free generation capacity over the next five years. The company's focus on replacing retiring coal capacity with zero-carbon assets also reflects WEC's prudent, long-term approach to cost-effective decarbonisation, all while preserving fuel diversity and regulatory compliance.

**Digital infrastructure expansion.** The rapid expansion of digital infrastructure is materially increasing electricity demand across multiple US regions, reversing decades of low utility load growth. WEC's service territories are no exception, with the expansion of data centres and digital services adding a robust and relatively recession-resistant source of demand. These facilities require high reliability, significant capacity and predictable pricing – all of which WEC is well-positioned to deliver due to its regulated utility model and strong grid reliability metrics. Moreover, the company's ability to serve large, power-intensive customers with clean energy offerings also enhances future growth opportunities.

### **Regulatory stability is important for WEC to deliver and realise these investments**

These structural changes are significant, and the expected capital spend is also substantial. As a result, the low-risk nature in which the company generates its earnings is attractive to investors. WEC operates within one of the most constructive and transparent regulatory environments in the US, particularly in Wisconsin, where multi-year rate plans, forward test years and timely cost recovery mechanisms provide a high degree of earnings visibility.

The utility benefits from formulaic rate structures and pre-approved infrastructure programs, such as the System Modernization Program, which enable it to earn regulated returns on capital promptly as projects are completed. This regulatory certainty reduces risk for the execution of large-scale investments and ensures access to low-cost funding. Moreover, WEC has maintained consistent regulatory relationships and has a track record of constructive outcomes.

This regulatory setting should bolster investors' confidence in achieving authorised returns – important for infrastructure investors seeking predictable and attractive risk-adjusted returns. Infrastructure, by Magellan's definition, is characterised by those businesses whose cash flows are underwritten by regulation, long-term contracts and indispensable demand. Regulated utilities such as WEC fit firmly in this framework and are a key component of our Strategy.

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