

CH ENERGY GROUP INC
Form DEFA14A
May 31, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE
SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to § 240.14a-12

CH ENERGY GROUP, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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(3) Filing Party:

(4) Date Filed:

Shareholder Presentation
Overview of Fortis Transaction
Thursday, May 31, 2012

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Forward-Looking Statements

Additional Information about the Proposed Fortis Transaction and

Where to Find It

This communication is being made in respect of the proposed merger transaction involving CH Energy Group and Fortis and the proposed transaction. In connection with the proposed acquisition of CH Energy Group by Fortis, CH Energy Group filed a prospectus and other relevant materials with the SEC as well. The proposed transaction will be submitted to CH Energy Group's shareholders for their approval.

investment decision, investors and shareholders of CH Energy Group are urged to read the proxy statement, and other relevant information available, because they contain or will contain important information about the proposed acquisition and related matters. The proxy statement is available to all shareholders. Investors and shareholders may obtain a free copy of the proxy statement and other documents filed by CH Energy Group at the following documents

(when they are available) can also be obtained by investors and shareholders free of charge from CH Energy Group at CH Energy Group's website at

www.chenergygroup.com, or by contacting CH Energy Group's Shareholder Relations Department at (845) 486-5204.

Participants in the Solicitation of Proxies

Statements included in this presentation which are not historical in nature are intended to be, and are hereby identified as, "forward-looking statements" for purposes of the safe harbor provided by Section 21E of the Exchange Act. Forward-looking statements may be identified by words including "anticipate," "expect," "plans," "assumes," "seeks," and similar expressions. Forward-looking statements including, without limitation, Hudson Gas & Electric Company's future business prospects, revenues, proceeds, working capital, investment valuations, liquidity, and other financial data relating to CH Energy Group, Inc.'s proposed acquisition by a subsidiary of Fortis, Inc. and the expected terms and timing of the acquisition, and the uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements, due to a number of factors that may change from time-to-time in the forward-looking statements. Those factors include, but are not limited to: the possibility that various conditions necessary for the proposed Fortis transaction will not be satisfied or waived; the ability to obtain shareholder and regulatory approvals of the proposed transaction and the terms thereof; deviations from normal seasonal weather and storm activity; fuel prices; energy supply and demand; potential future acquisitions; regulatory developments; interest rates; access to capital; market risks; electric and natural gas industry restructuring and cost recovery; the possibility of changes in fuel supply or costs including future market prices for energy, capacity, and ancillary services; the success of strategic investments; propane requirements; the outcome of pending litigation and certain environmental matters, particularly the status of inactive hydrocarbon assets and remediation requirements; and certain presently unknown or unforeseen factors, including, but not limited to, acts of terrorism or other events. For further reference in, but are not limited to, CH Energy Group Inc.'s proxy statement filed with the SEC. CH Energy Group and Central Hudson Gas & Electric Company's any forward-looking statements, whether as a result of new information, future events, or otherwise. Given these uncertainties, the actual results may differ from the forward-looking statements.

CH Energy Group, Fortis and certain of their respective directors and executive officers, under SEC rules, may be deemed to be "insiders" of CH Energy Group and Central Hudson Gas & Electric Company's shareholders of CH Energy Group in connection with the proposed acquisition. Information about CH Energy's directors and executive officers is included in CH Energy Group's Report on Form 10-K filed with the SEC on February 16, 2012, and definitive proxy statement relating to its 2012 Annual Meeting of Shareholders.

2012. Information about Fortis directors and executive officers may be found in its Management Information Circular available at [www.fortis.com](#). Information regarding the interests of such potential participants in the solicitation of proxies in connection with the proposed merger was first disclosed in a press release filed with the SEC on May 9, 2012 and may be included in other relevant materials filed with the SEC when they become available.

FORTIS
TRANSACTION

On February 21, 2012, CH Energy announced an agreement with Fortis for a sale of CH Energy at a price of \$65.00 per share in cash

100% cash consideration

Locks in premium value at a time of cyclically high industry valuations

Fortis purchase price represents a 21.9x P/E multiple on 2011A EPS at the high end of

these multiple ranges for comparable utility industry transactions

Transaction terms do not preclude other interested parties from making a topping offer prior to shareholder approval

The Fortis federation business model will allow CH Energy to largely operate as an independent entity, with little change in its day-to-day services and operations

Will have improved access to growth capital as a Fortis affiliate

3

\$65

per share

IN CASH

Compelling value for shareholders

4

FORTIS

TRANSACTION

Key transaction terms

ACQUIROR

Fortis Inc., the largest investor-owned distribution utility in
Canada, with assets of approximately \$14 billion

CONSIDERATION

\$65.00 per share in cash

FUTURE DIVIDENDS

CH Energy expects to pay its regular quarterly common stock dividends (currently \$0.555/share) in the ordinary course through closing, subject to the discretion of its Board of Directors

KEY CLOSING

CONDITIONS

No material adverse effect on CH Energy

CH Energy shareholder approval

Regulatory approvals

No financing condition for Fortis

BREAK-UP FEE

Approximately \$19.7 million; 2% of implied equity value

OTHER

Customary non-solicit provision with fiduciary out for Board

12-month drop-dead date (with 6 month extension for regulatory approvals, if necessary)

In May 2011, CH Energy was approached by a representative of Fortis to ascertain CH Energy's interest in pursuing a potential transaction with Fortis. Fortis had very recently agreed

to
pay
an
attractive
multiple
of
earnings
for
Central
Vermont
Public Service

Fortis, however, expressed unwillingness to participate in an auction process
Fortis had a publicly stated strategic objective of growing in the U.S. through utility
acquisitions

The Board conducted a strategic review and valuation of its standalone plan in the
summer of 2011

Concluded that it would be worth engaging with Fortis on a confidential basis to determine
what price/value they would see in CH Energy

Offer represented multiple of 20.4x 2011E EPS and a 19.7% premium over the closing price
of CH Energy common stock on the last trading day prior to the offer

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FORTIS TRANSACTION

On November 28, 2011, Fortis, at the request of CH Energy, provided its initial
indicative

offer
of
\$62.70
in
cash
per
share
of
CH
Energy
common
stock

How did our Board maximize shareholder value?

CH Energy's Board determined CH Energy should seek a higher price from Fortis and provide further access to confidential information to encourage Fortis to find additional value, but not to approach other potential transaction partners

The Board considered several factors regarding process, including the limited universe of potential transaction partners, Fortis unwillingness to participate in an auction, risks of leaks and further diversion of management and employees, and the ability to seek merger agreement terms that would not preclude alternative proposals post-signing and prior to shareholder

approval

After additional due diligence, CH Energy instructed Fortis to provide its best and final offer

On

February

13,

2012

Fortis

submitted

an

offer

of

\$64.20

in

cash

per

share

Agreed to a 2% break-up fee after extensive negotiation

CH Energy's Board continued to seek an additional increase in price to at least \$65.00 per share

Fortis agreed to a \$65.00 per share all-cash price, and the parties entered into the merger agreement on February 20, 2012

To date, no other party has approached CH Energy regarding an alternative transaction

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FORTIS

TRANSACTION

How did our Board maximize shareholder value?

Secures premium for CH Energy shareholders, on top of CH Energy's already above-peer and historically high trading value and trading multiples
Cash consideration
Locks in value at a time of cyclically high valuations for the industry
Eliminates downside from potential industry dynamics, including rate/regulatory risks
Eliminates downside from potential macroeconomic changes, including

increases in interest rates and dividend tax rates, which could adversely affect CH Energy's stock price

Significant value premium vs. standalone prospects

Eliminates risks to value/stock price associated with potential inability to achieve long-term strategic plans

7

FORTIS

TRANSACTION

Benefits of the transaction

Full and fair value

Offer evaluated by experienced financial advisor (Lazard) to be fair, from a financial point of view, to CH Energy shareholders

Continuation of quarterly common stock dividends pre-merger close

Limited alternatives (particularly M&A) available

Low break-up fee (2% of equity deal value) if a superior offer arises

Fortis is a large, high quality company who has a demonstrated history of

growing successfully through prior acquisitions

Benefits

to

customers

and

commitment

to

charitable

contributions

enhance

probability of closing

8

FORTIS

TRANSACTION

Benefits of the transaction

Fortis price is at the top end of financial advisor's private market valuation range

Process involved significant negotiation with Fortis over time, including two increases in their offer price

9

COMPLETION OF
STRATEGIC SHIFT

In 2011, CH Energy completed its strategic
shift

Further shareholder upside is limited
given:

More moderate EPS growth (rate)
going forward (beyond 2012)
Trading at healthy premium to peers
Historically low interest rate
environment
Potential increase in taxation of
dividends
Insufficient scale to pursue significant
value-enhancing growth projects
Ongoing regulatory risk
Limited universe of alternate acquirors
Divested renewable energy
portfolio
Use proceeds to repurchase
stock, retire debt
Focus on energy delivery:
Invest in Central Hudson's
delivery system
Grow Griffith's customer base
Improve service quality and
customer satisfaction
Strategic shift reduced
business risk; CH Energy
share price reacted favorably
to
refocus
on
the
core
business

10
COMPLETION
OF
STRATEGIC
SHIFT
2011 EPS
\$2.97

2010 EPS

\$2.44

5-YEAR SHAREHOLDER RETURN

STRONG INCREASE IN EPS

Source:

FactSet.

Note:

Trading data as of February 17, 2012 (last trading day prior to transaction announcement).

1

Here

and

throughout

this

presentation,

CH

Energy

peers

are

Consolidated

Edison,

Northeast

Utilities,

NorthWestern,

NSTAR,

Pepco,

UIL

and

WGL.

2

Based on Management estimates provided to Fortis (and included in proxy filings).

Management

has

created

significant

shareholder

value

over

the

past

several

years

2012E

EPS

\$3.47

17%

INCREASE

22%

INCREASE

CHG

52.6%

CHG

Peers

1

41.9%

S&P

500

3.7%

Significant

growth

in

EPS

from

2010

2012E;

this

growth

rate

is

unsustainable

going

forward

2

11
TRADING
PERFORMANCE
CH
Energy
was
trading

near
its
all-time
high

CH ENERGY 10-YEAR HISTORICAL TRADING PRICE

Fortis

Price:

\$65.00

9.5% Premium

Transaction

Represents 9.5%

Premium to All-

Time High

Source:

FactSet.

Note:

Trading data as of February 17, 2012 (last trading day prior to transaction announcement).

1

All-time high closing price of \$59.37 occurred on December 29, 2011.

1

1

12
TRADING
PERFORMANCE
NTM P/E PERFORMANCE LAST 20 YEARS
CH Energy trading at a forward P/E premium
Source:
FactSet.

Note:

Trading data as of February 17, 2012 (last trading day prior to transaction announcement).

10-YEAR TREASURY YIELD LAST 20 YEARS

High absolute P/E and relative to both utility peers and vs. S&P

Interest rates, which are at historic lows, typically exhibit a strong negative correlation with utility market valuations

13
Fortis
Price:
18.7x
Fortis
Price:
9.2x

ATTRACTIVE VALUE
PROPOSITION

Proposed price is at attractive valuation

2012E EPS

PRECEDENT RANGE

1

: 15.0x

19.5x

2012E EBITDA

PRECEDENT RANGE

1

: 8.3x

9.0x

Recent Transactions

Gaz Métro CVPS:

19.6x

AGL Nicor:

18.1x

AES DPL:

12.4x

Exelon

Constellation:

11.9x

Recent Transactions

Gaz Métro CVPS:

NA

AGL Nicor:

7.7x

AES DPL:

NA

Exelon

Constellation:

5.9x

Note:

Based on Management estimates; see proxy filing for additional detail.

1

Reflects transaction multiples based on Lazard's analysis of the relevant metrics, after adjusting for certain outliers.

2

Multiples

reflect

1-year

forward

multiples

as

of

respective

transaction

announcement

dates.

Does

not
represent
comprehensive
list
of
precedent
transactions
reviewed.

Fortis purchase price is near the top of the range of selected comparable transactions

2

2

14

ATTRACTIVE VALUE

PROPOSITION

Proposed price is at attractive valuation

2013E EPS

PEER TRADING RANGE: 13.5x

16.4x

2012E EPS

PEER TRADING RANGE: 14.4x

16.8x

Fortis

Price:

18.7x

CHG

Pre-

Announce:

16.6x

Fortis

Price:

19.1x

CHG

Pre-

Announce:

16.9x

Note:

Based on Management estimates; see proxy filing for additional detail.

20% premium

to midpoint of

peer range

28% premium

to midpoint of

peer range

Fortis purchase price is well above the range of peer P/E trading multiples

CH Energy had been trading at a P/E multiple premium to its peers prior to the transaction announcement

14.4x

16.8x

5.0

8.0

11.0

14.0

17.0

20.0x

13.5x

16.4x

5.0

8.0

11.0

14.0

17.0

20.0x

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ATTRACTIVE VALUE
PROPOSITION
2013E EBITDA
PEER TRADING RANGE: 7.4x
8.6x
2012E EBITDA

PEER TRADING RANGE: 7.8x

8.8x

Proposed price is at attractive valuation

Fortis

Price:

9.2x

Fortis

Price:

9.1x

CHG

Pre-

Announce:

8.5x

CHG

Pre-

Announce:

8.4x

11% premium

to midpoint

of peer range

14% premium

to midpoint

of peer range

Note:

Based on Management estimates; see proxy filing for additional detail.

10.0x

9.0

8.0

7.0

6.0

5.0

4.0

3.0

2.0

8.8x

7.8x

10.0x

9.0

8.0

7.0

6.0

5.0

4.0

3.0

2.0

8.6x

7.4x

Fortis purchase price is well above the range of peer EV/EBITDA trading multiples

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ATTRACTIVE VALUE
PROPOSITION

Our Board reviewed a variety of methodologies
used by Lazard to evaluate the transaction

Note:

See proxy filing for additional detail.

Fortis

Price:

\$65.00

\$47.44

\$49.50

\$48.25

\$50.75

\$47.75

\$52.25

\$59.74

\$57.00

\$56.00

\$58.00

\$55.75

\$62.75

40.00

50.00

60.00

\$70.00

52-Week

High/Low

Comparable

Company

Multiples

Consolidated

Comparable

Company

Multiples

Sum-of-

the-Parts

Discounted

Cash Flow

Consolidated

Discounted

Cash Flow

Sum-of-

the-Parts

Selected

Precedent

Transactions

The Fortis purchase price exceeds the value expected to be derived from the standalone plan and eliminates many risks associated with executing on such plan

Transfers regulatory, operational, interest rate, and general market/utility valuation risk away from shareholders

Fixed
price,
cash
transaction
avoids

equity
valuation
risk
(both
market and company specific) present in stock-for-stock deals
Low
break-up
fee
leaves
the
door
open
for
competing
bidders prior
to shareholder approval (however, prospect unlikely given high
valuation and limited potential buyer universe)
Transaction terms give CH Energy operational flexibility during
closing process (including ability to declare and pay regular quarterly
common dividends in the ordinary course)
17
FORTIS
TRANSACTION
Merger terms minimize risk to shareholders
Break-up fee as a % of purchase price well below peer utility industry
transaction average

The Board concluded that the Fortis offer represents a significant premium over CH Energy's standalone value and other strategic alternatives

Low break-up fee does not preclude other interested parties from making a topping offer prior to shareholder approval

The Board recommends that shareholders
vote for the transaction

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SUMMARY

RECOMMENDATION

Proxy
Statement
Mailed:
May
14
Special
Meeting

of

Shareholders:

June

19

FERC

FTC/DOJ Hart-Scott-Rodino Act

Committee on Foreign Investment in the U.S.

NY PSC

19

TRANSACTION

TIMETABLE

Next steps

Shareholder approval schedule

Pursue required regulatory approvals

BEST ESTIMATE OF

CLOSING DATE

1

ST

QUARTER

OF 2013*

*Could change

Closing can occur once all

approvals are received