NORTHWESTERN CORPORATION (NYSE: NWE)
Montana Commission Losing Touch, Other Adjustments

Ticker: NWE  
Rating: Hold  
Target Price: $64.00

- Today, we are adjusting our target price and some earnings estimates for NorthWestern.
- However, first we need to address an extremely important issue. On June 22 and June 29, the Montana Public Service Commission (MPSC) held several work sessions addressing various NorthWestern related issues.
- The MPSC reduced the terms on which Qualifying Facility (QF) generators can participate in the generation market. Most importantly, while the QF tariff rate was substantially reduced, the QF contract (PPA) term was also reduced to a maximum of 10 years with a rate adjustment after five years.
- The MPSC voted to establish policy to hold the utility to the same QF standards for new generation resources.
- The MPSC vote holds significant negative implications for new generation, NorthWestern’s potential growth profile, and a damaged regulatory compact.
- We reiterate our Hold investment rating on NorthWestern Corporation (NYSE: NWE) on July 5, 2017 at a price of $61.05. However, we are raising our target price to $64.00 from $61.00. While we are raising our target price to reflect a less onerous dividend discount model and we are shifting our valuation to 2019 fundamental estimates, it in NO WAY reflects on recent MPSC activity.
- Please see our earnings estimate revisions for 2017-2019 below and our 20 Questions for Management on page 16.

Market Data
- Price: $61.05
- Market Cap ($MM): $2,958
- Indicated Dividend: $2.10
- Book Value: $35.28
- Price-to-Book: 1.73x
- LT EPS Growth: 3.8%
- 52 Week High/Low: $63.86/$53.85
- Avg. Daily Volume: 345,355

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Ida S. Wozniak  212.373.4289  wozniak@willcap.com

EPS Outlook

<table>
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<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
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<td>Current</td>
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<td>$3.68E</td>
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Notes: 2013 recurring EPS excludes Q3 -$2.8 mil p-t, -$1.7 mil a-t, -$0.04 PPL hydro acq. transaction costs, incl. $1.2 mil prior period DSM, -$3.5 mil p-t, -$2.2 mil a-t, -$0.04 PPL hydro acq. transaction costs, incl.-$0.6 mil prior period DSM. 2014 excludes -$9.5 mil a-t, -$0.24 Hydro transaction costs, $18.5 mil, $0.47 tax benefit. 2015 excludes Q2 $20.8 mil p-t, $12.8 mil a-t, $0.27 insurance recovery benefit, -$3.75 mil a-t, -$0.8 QF adjustment. 2016 excludes Q1 -$10.3 mil p-t, -$6.2 mil a-t, -$0.13 MPSC Colstrip/generation planning cost disallowances, Q2 $14.2 mil p-t, $8.7 mil a-t, $0.18 GRASM deferred rev. recognition for prior periods, -$1.3 mil a-t, -$0.03 Colstrip disallowance chg., Q3 $12.5 mil a-t, $0.26 repairs tax deduction tax acctg. chg. for prior periods. *Excluding capital leases

P/E
2011A | 14.5x  | 2012A | 14.7x | 2013A | 17.7x | 2014A | 20.5x | 2015A | 18.2x | 2016A | 18.3x | 2017E | 17.8x | 2018E | 17.1x | 2019E | 16.6x
Div. Payout
58.4% | 58.3%
The Montana Commission Strikes Again

Today, we are adjusting our target price and some earnings estimates for NorthWestern. However, first we need to address an extremely important issue. On June 22 and June 29, the Montana Public Service Commission (MPSC) held several work sessions addressing various NorthWestern related issues. While the MPSC addressed the passage of HB 193 in Montana which allows the commission to adjust NorthWestern’s power supply tracker, the tracker issue is now a relatively minor issue, in our view. Forget the fact that trackers are very common in the U.S. and help to reduce financing costs for consumers, the MPSC appears to abhor them nonetheless and any tracker changes are not likely to be beneficial to NorthWestern.

Of greater consequence was what followed. The MPSC reduced the terms on which Qualifying Facility (QF) generators can participate in the generation market. Most importantly, while the QF tariff rate was substantially reduced, limiting QF opportunities materially, the QF contract (PPA) term was also reduced to a maximum of 10 years with a rate adjustment after five years. Essentially, QFs now only have a five year contract to base financing on. While we are no fan of QFs, they have been an archaic concept that has inundated the western states with unacceptable consumer costs, these terms essentially kill off the QF market entirely, in our opinion. While that may have been the commission’s intention, what followed is unprecedented as far as we know.

NorthWestern suffered a new indignity as the MPSC voted to essentially hold the utility to the same QF standards for new generation resources. The commission put out one of its self-aggrandizing and unique to state commission press releases to signify the event. The commission bemoaned the risk of “forecast error” in deciding to limit contract terms. Yes, forecast error does put consumers at some risk of a flawed forecast. Frankly, it is the a commission’s role to determine the prudence of a power supply/market price forecast in determining if a new generation resource is prudent and in the interests of consumers. Saying “we accept the forecast for five years, then we will re-evaluate your investment” is not the regulatory compact as it exists in America today. A commission cannot adjust rates with perfect information in five years while the utility does not have that same opportunity. Someone has to make that determination before construction of new electric utility (or QF) assets, and that is the commission’s job. To later decide with actual information that an asset is imprudent after 100s of millions of dollars of investment has been made runs counter to the regulatory compact at its core. Frankly, utilities have generally done a good job of providing for utility resources on a timely basis. When they have not, they are not allowed to add additional resources until the actual consumer usage warrants a new investment. The necessity of this added condition on utilities in Montana appears unnecessary.

The MPSC’s thinking is deeply flawed on several levels:

- The MPSC assumes that QFs and utilities should be on an exactly level playing field. Fair opportunities for QFs are a good standard for a commission. Many of the characteristics of a QF and utility-owned generation are not equivalent and therefore, the playing field should not be perfectly equivalent either. While utilities have low financing costs, some QFs have even cheaper financing supported by even larger parent corporations for instance. Also, utility generation capacity has value to consumers, as a stabilizing influence on rates, or allowing for membership in an Energy Imbalance Market (EIM) that saves consumers money for an example of a few of the benefits.
- A QF generator is by no means the exact equivalent of utility generation, just some of the differences include:
  1. Utility-scale generation is much larger and hence riskier than small QF assets.
  2. The duration of utility investments is generally much longer than QF investments.
  3. QF owners have the right to sell their assets at any time, utilities are functionally captive holders.
  4. Holding the utility to the same standard as QF generators ignores the fact that the utility return on its...
investments are constantly under review over the course of their 30+ year life in terms of capitalization, return on capital, and operating cost reviews.

5. The utility accepts a considerably lower return on capital than private QF generators for some of the fixed elements of the regulatory compact.

6. Utility generation benefits from considerable economies of scale that QFs do not.

7. The cost of QF generation is fixed or includes annual price escalators for consumers. The utility owned generation resources’ cost to consumers declines over time as debt is retired, the asset is depreciated, and presumably, rate base and property value declines. The utility eats operating cost inflation in between rate cases, a benefit to consumers that is significant, while QFs receive escalating prices (this may be addressed by the MPSC as well, although a mute point with unlikely QF development). The two asset classes could not be more different, in our opinion. Consumers benefit from the declining cost structure of utility generation over time. Holding the utility to the same terms of QFs ignores this considerable benefit.

8. If the utility performs poorly on the new asset, the commission has plenty of authority to punish the utility at any time.

9. Yes, the utility does have some advantages over the QF, but the regulator has every opportunity to hold the utility accountable and make adjustments to rates as it deems necessary.

10. While the MPSC’s action may create a level playing field with the utility and QFs, it is both a flawed playing field and one that should not be level by any means. Symmetry is not always wise, fairness is, and the two are not always the same.

- NorthWestern is materially short power and capacity. The company’s current planning reserve margin deficit of almost 30% is probably the worst in the industry. It likely prevents the utility from joining an Energy Imbalance Market (EIM) that has been benefiting customers significantly elsewhere. While consumers are enjoying the current market prices as a result of low natural gas prices, the current conditions also may not persist forever. The commission appears to be saying “we are happy with enjoying market purchases at low power prices and are less concerned with NorthWestern hedging its market exposure at this time with new generation resources.” While that may be indeed wise over the short run, it introduces “forecast risk” into rates. Most states are comfortable with consumers being exposed to 10%-15% market risk. If the MPSC is afraid of the cost of “forecast risk” for consumers, it certainly appears comfortable with this significant gamble on their part today. What is good for the goose is not always good for the gander apparently. Guess who will get blamed if a spike in wholesale power price costs consumers significantly down the road? NorthWestern has suggested that it believes it should hedge consumers’ exposure more by adding new generation resources. The MPSC is essentially denying that request. The asymmetrical risk the commission is willing to take runs contrary to their desire for symmetry elsewhere.

- The MPSC policy change is discriminatory against baseload generation. It certainly encourages NorthWestern to favor more expensive peaking generation resources to meet the MPSC’s new policy standard.

**Exhibit 1: Recurring 2017 Segment Estimates**

<table>
<thead>
<tr>
<th></th>
<th>Q1/17A</th>
<th>Q2/17E</th>
<th>Q3/17E</th>
<th>Q4/17E</th>
<th>FY17E</th>
<th>Yr/Yr</th>
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<td>$3.43</td>
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<td>Total Diversified</td>
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<td>-$0.01</td>
<td>$0.02</td>
<td>$1.18</td>
<td>$0.02</td>
<td>8.9%</td>
</tr>
<tr>
<td>Total</td>
<td>$1.17</td>
<td>$0.61</td>
<td>$0.63</td>
<td>$1.03</td>
<td>$3.43</td>
<td>$3.43</td>
<td>10.5%</td>
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<td>$30.484</td>
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• Like the QFs, NorthWestern is unlikely to meet the essentially five year rate base/contract standard established by the MPSC’s new “symmetrical” generation resource policy and the commission is basically negating NorthWestern’s ability to reduce its short position and add new generation resources.

• The changes to regulatory rate approval policies proposed by the MPSC and the uncertainty of regular reviews of new plant investment/returns in the future will cost consumers. The MPSC is essentially establishing a five year rate base standard for investments. Since there is no certainty that the utilities in Montana will recover their investments after the initial five year period, utilities essentially will need to have recovery over a shorter duration of time. While perhaps an extreme case, creditors will take notice. Interest rates provided to the utilities are based on the certainty of cash flows provided by regulated rate base investments. The introduction of uncertainty into the utility cash flow stream related to new investments under the new MPSC standard will significantly increase the cost of debt and the cost of equity for NorthWestern. Given that this new regulatory compact is different than the other 49 states, NorthWestern and Montana consumers will be disadvantaged compared with other utilities/states. The MPSC is essentially creating an IPP out of a utility. Many utility investors will see this as a significant disadvantage relative to peer alternatives for investment. The credit rating agencies will certainly be more inclined to reduce credit ratings for Montana utilities, potentially raising the cost of debt for those companies. We are horrified that the MPSC appears to misunderstand how the cost of capital is determined for utilities and how their new policy will affect the state’s utilities.

• Simply by publicly raising this radically different policy for changing how new investments are made by the utility in Montana hurts NorthWestern in the eyes of investors. The MPSC has appeared hostile to NorthWestern over the past few years. This is another example of how the MPSC is unfavorable for NorthWestern investors and it will not go unnoticed. Frankly, until last week, we were giving some consideration to upgrading NWE shares. The stock remains considerably cheaper than the electric utility group and is starting to stand out as somewhat of a value in relative terms. After last week, we will not recommend NWE shares. The discount in NWE is warranted due to extreme regulatory concerns, in our opinion.

We invite the MPSC commissioners to discuss this issue with investors. While we appreciate that the MPSC is trying to create a fair environment for QFs, we do not believe they have anticipated the full weight of the hornet’s nest they have stirred up.

The regulatory compact is generally this: In exchange for the regulated utility monopoly franchise, a utility agrees to a considerably lower regulated rate of return than would be accepted by any other type of publicly traded entity and agrees to regulatory oversight. The utility provides safe and reliable utility service (either electricity or natural gas, or both) at the cheapest possible cost to customers. To accomplish this, the utility makes adequate capital investments approved by the utility regulator to support its mandate of safe and reliable service while providing adequate resources to serve a growing customer base. The utility recommends investments it believes are necessary to meet its service obligations and the regulator decides if it agrees AT THAT TIME. The regulators do not have an opportunity to change their minds in five years with perfect information that did not exist previously. The utility does not have that luxury. Also, the utility will be there in 100 years after the commissioners are long out of office. The utility also makes investments that support the regulatory and political agendas of its service areas, such as environmental, renewable energy, and economic growth objectives. The regulator in turn provides a satisfactory return for the utility’s investors and provides an opportunity for actually earning that return. That means a fair return and timely rate relief as requested by the utility to pay for the utility’s costs and capital investments.

In many states, this regulatory compact is followed in an earnest fashion. Rate cases are fairly quickly
executed. ROEs are actually earned within reasonable ranges. Regulators approve rider and tracker mechanisms that allow for reduced regulatory lag. Regulators appreciate utilities that avoid large annual rate increases for more palatable small annual or periodic rate relief. Mandated stranded costs are recovered. The failure of regulators to uphold their side of the regulatory compact is unacceptable and confiscatory. After all, the nation’s utilities are generally providing safe and highly reliable service. However, not all regulators provide a fair return or sensible policies.

We have no issue with regulators punishing a utility for poor service or other failures to fulfill its end of the regulatory compact. This can be accomplished by denying utility requests or discounting the allowed return among other mechanisms. However, the punishment should be explicit and only last for the duration of the utility’s failures. Failure by the regulator to provide a fair return that is earnable within a reasonable timeframe or provide sensible policy is simply confiscating investor money for the benefit of customers. That sounds a lot like socialism to us, even in Montana.

Other Recent Events

Natural Gas GRC Settlement - On June 12, NorthWestern announced a settlement agreement in its natural gas rate case. NorthWestern agreed to a $5.7 million, 2.9% increase in revenues. The settlement agreement is just over 50% of the initial $10.9 million revenue request. The settlement reflects a 9.55% ROE, 46.8% equity component as filed, and a 6.96% overall rate of return.

Q117 Conference Call - On the Management reiterated its 2017 EPS guidance of $3.30-$3.50. The company’s definition of recurring EPS in the first quarter excluded the $0.04 per share of cooler than normal weather benefits. As we include actual weather in our estimates, it appears that the upper-end of the range is increasingly likely for the year, in our view. The company’s latest guidance reflects 48.5 million average diluted shares, normal weather and a range of anticipated effective income tax rates of 7%-11% (recurring). The company further reduced its CAPEX guidance through 2021 by about $80 million to reflect delays in new generation resource plans given the MPSC’s response to the company’s plan. NorthWestern CFO Brian Bird maintained the company’s expectations for attaining the lower–end of its 7%-10% annual total return target due to the lower capital expenditures and “regulatory headwinds” (you can imagine what/where that refers to) and delays regarding new generation investment proposals. This implies intermediate-term EPS growth for NorthWestern of only about 2.0%-3.5%, in our view. Management previously noted that it increased the 2017 dividend growth to 5.0% partially to compensate for the lower prospective EPS growth. With the reduced CAPEX budget, NOLs are now expected to extend into 2021. The Montana natural gas rate case rebuttal testimony is complete with hearings set for May. The company filed its 2016 annual report with the MPSC on April 26 showing a normalized earned ROE of only 9.38% compared with the weighted allowed ROE of 10.05%. Management indicated its plan for a Montana electric rate case filing is now expected in 2018. Management also discussed potentially negative new regulatory efforts subsequent to recent Montana legislative activity.

Montana Gas Case - On April 7, the company filed its final rebuttal testimony in the Montana natural gas case. The company has reduced its rate request to +$9.4 million, +5.0% from the previous +$10.9 million, +8.0% amount. A decision is expected by mid-year.

Moody’s Downgrade - On March 10, Moody’s reduced the company’s credit rating one notch to A2 and maintained the negative outlook on NorthWestern.

Dividend Increase - On February 17, the company raised the common dividend 5.0% to $0.525, $2.10 from $0.50, $2.00. The increase represented a more aggressive increase compared to the 4.2% increase in 2015. As CFO Brian Bird noted on the Q416 earnings call, the more generous increase was related to lower near-
### Exhibit 2: Principal Forward EPS Drivers

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<th>Q3</th>
<th>Q4</th>
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<td>$0.03</td>
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<td>$0.63</td>
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<td>MT '16 Gas GRC</td>
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<tr>
<td>1.0% Electric/Gas Load Growth</td>
<td>$0.02</td>
<td>$0.02</td>
<td>$0.02</td>
<td>$0.02</td>
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<td><strong>2018 Expected EPS</strong></td>
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<td>2017 (Diluted)</td>
<td>$1.20</td>
<td>$0.67</td>
<td>$0.63</td>
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<td><strong>Earnings Drivers:</strong></td>
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<tr>
<td>'18 MT Electric Rate Case</td>
<td>$0.04</td>
<td>$0.02</td>
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<td>Gross Margin</td>
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<td>Property Taxes - 60% Rider</td>
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<tr>
<td>1.0% Electric/Gas Load Growth</td>
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<td>$0.02</td>
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<tr>
<td><strong>2019 Expected EPS</strong></td>
<td>$1.27</td>
<td>$0.66</td>
<td>$0.62</td>
<td>$1.14</td>
<td>$3.68</td>
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Source: Williams Capital estimates
term EPS growth expectations.

**HB 189/193** - Earlier this year HB 189 was passed by the Montana legislature. The new statute seeks to significantly modify property tax tracker mechanisms that help mitigate the impact of rapidly escalating property taxes in Montana for utilities. In HB 193, the Montana legislature gives the MPSC authority to also make modification to NorthWestern’s power supply cost tracking mechanism. Both trackers are pending modification.

**Earnings Estimates/Outlook**

We are making several estimate revisions to reflect some recent events and actual weather in Q217. We are also raising our long-term EPS growth estimate up to 3.8% from 3.5% for some modest adjustments to our financial forecast.

The company’s $3.30-$3.50 2017 guidance reflects 48.5 million average diluted shares, normal weather, and a range of anticipated effective recurring income tax rates of 7%-11%. Also, subsequent to the extension of several tax benefits, including bonus depreciation, the company does not expect to be a cash taxpayer through at least a portion of 2021 and with the current CAPEX budget, the company does not expect any material equity needs. In the absence of new natural gas acquisitions, depletion should prove a modest headwind for company annual results. Low electricity prices are also proving to be a drag on transmission revenues of late. Assuming a return to more normal weather in 2017, we expect most of the -$0.19 per share drag on 2016 earnings should dissipate this year. With much improved weather and Q117 results, 2017 is looking encouraging, in our view. Longer-term, the company has reduced CAPEX budgets through 2021 as a result of regulator resistance to new generation investment proposals to reduce the extreme short position the company has. Ultimately, the company’s reserve margin issue will be addressed, providing significant new growth opportunities. However, new large generation investments are postponed for now pending a better regulatory response.

Recent material adverse rulings and opinions from the Montana Public Service Commission (MPSC) over the past several years are a concern for us. The MPSC previously eliminated the company’s Lost Revenue Adjustment Mechanism (LRAM) in September 2015. The decision reduced NorthWestern’s annual revenues by about $7 million. The reduction of authorized natural gas production rates and the recent Colstrip disallowances have also materially affected company financial results in recent periods. Of late, the MPSC has objected to NorthWestern’s new generation proposals despite a reserve margin deficit of nearly 30% and actively worked with the legislature to adversely modify a property tax expense tracking mechanism. The MPSC has taken to making unusual proclamations of how evil utilities (not just NorthWestern) are in public press releases. It remains rogue regulatory mayhem up there! We are not sure what has the MPSC in a punitive mood in relation to the company, but it certainly does not bode well for the company’s regulatory relations, in our view. It certainly does not bode well for the company’s Montana base electric rate case in 2018 or the ability of the company to receive approval for future generation resource filings with this unpredictable commission, in our opinion. The dubious Montana regulatory climate is a considerable negative for NorthWestern’s growth potential, ability to reduce the company’s (and customers’) exposure to the wholesale power market, and is a material detriment to the company’s cost of capital, in our view. What was once an up and coming regulatory environment appears deeply flawed at this point, in our view.

On a potentially positive note (although not looking good at all), NorthWestern filed its biennial Montana electricity supply resource procurement plan with the Montana Public Service Commission (MPSC) on April 1, 2016. NorthWestern’s filing suggests significant capacity shortfalls developing (including the Boardman and Centralia retirements) in the region and notes the company’s current -28% planning reserve margin, -

**New investments in 689 MW, $1.3+ billion through 2028 are possible...**
338 megawatt shortfall. With load growth, the company expects the company’s Montana capacity shortage to grow to 688 MWs in later years. While the company does not address it in this filing, it will also ultimately need to establish a reserve margin of about 15% at some point. Effectively, the company’s filing outlines its plan to meet its minimum load over the next 10 years, establishing a neutral reserve margin by 2028. To meet this goal, the company developed a specific optimal set of generation projects to add 689 MW of new generation capacity. The initial cost estimate for the 689 MWs is about $1.3 billion. The company also notes 86 MW of additional hydro capacity projects as opportunities to add additional capacity without estimating timing or costs. The figures exclude the capacity and costs associated with another 86 MW of hydro expansion opportunities. The company also notes that it retains significant flexibility to adjust to actual load growth and regional developments in its plan given the phased stages of plant additions envisioned through 2029. NorthWestern’s capacity plan is a significant enhancement to the company’s future growth outlook, in our view. We expect the company to provide further details of its plan and CAPEX as the year progresses. Unfortunately, the vast majority of the generation capital spend is back-end loaded for after 2020, providing little support for our near-term outlook. Also, given the current mood of the MPSC, it is difficult to gauge the ultimate outcome of the company’s plan to improve its generation capacity and reserve margins. While regulatory opposition to what appears to be a logical plan has derailed any near-term opportunity for the company, the outcome is inevitable in the long-run.

Our enthusiasm for the company’s growth prospects has largely been derailed by the MPSC. While planned company CAPEX still will exceed D&A by almost 100% over the next five years, the considerable growth potential for the company related to generation needs are not a near-term issue. Rate base growth could be high depending on the details of new generation plans/timing. The 2020-2030 period could be a very exciting time for the company’s growth due to significant generation investments needed. We note that the extension of bonus D&A and wind tax benefits in 2015 and current MPSC “dynamics” could significantly affect the company’s eventual capital plans. Fortunately, in the absence of major acquisitions or more robust generation investment plans, we also do not expect material equity dilution to affect EPS growth through 2021. In the meantime, low growth appears more likely for the company. NorthWestern said as much on the Q416 earnings call. However, based on the much improved Q117 results, strong customer and usage growth, and our revised fundamental forecast, we are raising our 3-5 year EPS growth rate again slightly to 3.8% from 3.5%. While higher, NorthWestern’s growth profile still looks sluggish compared with peers, in our view.

Considerable uncertainties remain for the company related to potential new Montana generation, natural gas production acquisitions/depletion, distribution and transmission reliability plans (DSIP & TSIP), and environmental compliance capital requirements, in our view. The sometimes Machiavellian machinations of the MPSC only exacerbate the uncertainties related to NorthWestern’s potential capital expenditures, regulatory relief requirements, and the timing of the company’s full earnings potential, in our opinion. Therefore, greater clarity of the company’s capital expenditure and rate case plans could still affect our earnings and equity assumptions materially over the next few years. Our estimates only reflect our understanding of currently anticipated and defined capital projects and rate filings. We are not ready to forecast the timing or magnitude of the Montana electric GRC we expect to be filed at some point. However, we do expect the MPSC to eventually approve new generation projects as they appear to advance state policy objectives. Given the considerably lower earned ROE, natural gas rate proceedings in Montana could be less difficult. However, the process may not always appear friendly as recent adverse MPSC orders have highlighted and could result in a more worrisome electric rate case, in our view.

We are reducing our 2017 recurring EPS estimate to $3.43 from $3.47 with quarterly estimate revisions as shown on page 1. Our estimate revisions largely reflect warmer than normal temperatures in Q217 relative to our expectations, partially offset by a slightly larger than expected natural gas settlement agreement. Our
estimates largely reflect the Montana natural gas rate case settlement, a return to normal weather (with a better than normal Q117 and below normal Q217), and revised O&M, property tax, and D&A expense assumptions. While 2016 had numerous visible earnings drivers, in the absence of new capital projects, acquisitions, or details of rate case filings, 2017 should be fairly simple, in our view. Essentially, we expect some operating cost pressures and de minimus equity dilution to partially offset load growth, improved gross margin, and the Montana natural gas rate increase.

Our 2017 estimates generally reflect:
- A return to normal weather, with a colder than normal Q117, a +$0.19 per share net benefit;
- An improvement in gross margin of $0.20, excluding weather;
- 1.0% retail energy load growth (+$0.09);
- the 2016 generation repairs tax deduction accounting change (+$0.02, change in quarters);
- and the Montana natural gas base rate increase (+$0.03, approximately 40% of the year).

We expect these positive catalysts to be partially offset by:
- O&M expense inflation of -$0.05 per share;
- DD&A expense inflation of -$0.12;
- property tax inflation (less tracker covered portion) of -$0.08;
- an increase in interest expense of -$0.00 which is moderated by the refinancing of a 6.0% issue that should largely offset higher debt balances;
- and -$0.01 equity dilution.

A higher effective tax rate of 9.0% is reflected in our estimates. Again, the outcome of natural gas resource acquisitions, new capital projects, and a potential Montana electric GRC filing could influence 2017 results and beyond significantly. Our 2017 estimates reflect 48.6 million average diluted shares. While 2017 EPS should increase about 10% compared with 2016 due to a return to more normal weather, it is an unusual annual increase.

We are also raising our 2018 recurring EPS estimate to $3.58 from $3.55 with quarterly estimates as shown on page 1. Our estimate revisions largely reflect a revised seasonality for the Montana natural gas rate increase and some expense assumption changes. Our estimates generally reflect a full-year Montana natural gas base rate increase (+$0.05), 1% retail energy load growth (+$0.09), an increase in gross margin (+$0.19), less net operating expense inflation of -$0.20 per share (largely O&M, DD&A, property taxes). Debt refinancing at lower cost and AFUDC for construction projects should also more than offset higher debt balances. A refinancing of $250 million, 6.34% debt should be particularly beneficial for the year. Our estimates reflect 48.8 million average diluted shares. A higher effective tax rate of 10.0% is reflected in our estimates. Our estimates reflect about 4% EPS growth compared with 2017.

We are also introducing our 2019 recurring EPS estimate of $3.68, representing roughly a 3% increase in EPS compared with 2018. Our 2019 estimate largely reflects our assumptions for load growth and a small Montana electric rate increase.

**Investment Opinion**

We reiterate our Hold investment rating on NorthWestern Corporation (NYSE: NWE) on July 5, 2017 at a price of $61.05. However, we are raising our target price to $64.00 from $61.00. While we are raising our target price to reflect a less onerous dividend discount model and we are shifting our valuation to 2019 fundamental estimates, it in NO WAY reflects on recent MPSC activity. Our target price continue to reflect a material discount to peers of nearly 1.0x 2019 recurring EPS that reflects the regulatory uncertainties of Montana.
The stock got considerably more attractive since last summer.

Our rating reflects the significantly reduced growth outlook over the near-term and the unfavorable/contentious regulatory environment in Montana. Our revised target price reflects our increases in fundamental estimates, our shift to 2019 for valuation, and slightly higher valuations on dividends. While we are raising our estimates somewhat, the modest intermediate-term growth outlook and a seemingly deteriorating Montana regulatory climate remain concerns for us. Nevertheless, NWE shares remain one of the less elevated valuations in the electric utility group. The Montana situation is deserving of a material valuation discount. While the stock is trading at 17.1x our 2018 estimate and 16.6x our 2019 estimate, roughly 1.5x cheaper than its electric peer group, the discount appears somewhat excessive, in our view. Still, we do not see enough upside potential in the stock to warrant adding NWE incrementally at this point, particularly in light of the highly volatile Montana regulatory environment.

Our target price reflects a P/E of 17.9x our 2018 recurring EPS estimate, 17.4x our 2019 EPS estimate, and roughly a 8.3% total return potential over the next 12 months, including the current indicated dividend yield of 3.44%. Our target valuation reflects a material discount to the average P/E for the stock over the past three years, but more comparable to average P/E relative to the past decade for NWE shares despite some higher comparable valuations, particularly in light of recent regulatory outcomes in Montana. Our target valuation reflects a discount to peers of about 1.0x based on 2018/2019 earnings due to the Montana regulatory issues and lower comparable growth outlook for NorthWestern.

This year should be another positive EPS growth year (+10.5%) for the company despite unfavorable weather after an impressive decade of nearly 9.0% compounded EPS growth and a string of successful growth transactions. After the strong performance from 2015 results due to the Montana hydro asset acquisition, the acquisition of Beethoven wind farm, and the successful conclusion of the South Dakota electric base rate case, we expect another positive year in 2017 due to the reversal of the effects of very strong El Niño conditions on 2016. Cost control efforts should continue to be essential to future earnings growth.

We find the company enjoying many attractive characteristics at this time:

- **Valuation** - NWE share valuations have declined to near historical norms. While giving the stock a significant target P/E discount to the observed valuation of the previous three year average and a 1.0x discount to our target 2018 P/E for our coverage universe (most of NorthWestern’s peers), the stock appears near fair value at close to its 10-year average P/E. The dividend yield of 3.44% is attractive relative to peer utility yields of closer to 3.0% in a yield-oriented market. Should regulatory relations
improve or the growth outlook accelerate, the stock’s discount to peers would prove an attractive benefit. However, until then, NorthWestern’s low growth profile and regulatory issues is deserving of a lesser valuation.

- **Free Cash Flow** - NorthWestern is one of the rare utilities producing free cash flow that we expect to be in the $50-$75 million range annually for the next few years (based on the latest CAPEX budget). We love free cash flow generators.

- **Significant Growth Opportunities** - The company’s April 2016 Montana electricity supply resource procurement plan filing outlines a very attractive set of significant growth opportunities that we hope can successfully navigate the MPSC eventually. The plan also implies additional opportunities beyond the stated capacity goals and assumes what appears to be a very conservative load growth outlook.

- **Stable Balance Sheet** - We expect a stable balance sheet squarely in the company’s 50%-55% debt target range for the foreseeable future without the need for material equity dilution in the absence of new electric generation needs or acquisitions.

- **Dividend Growth** - The company’s target dividend payout of 60%-70% suggests continued, if moderate dividend growth.

- **Strong Economy** - Economic growth in the company’s service areas is better than the overall U.S., leading to above average utility customer/energy demand growth for both electricity and natural gas utilities.

- **Gas Supply Acquisitions** - The company still has opportunities to acquire additional natural gas reserves in Montana and we expect new generation in Montana to fuel demand for natural gas over time.

- **Consistent Rate Base Growth** - Overall, capital expenditures well in excess of DD&A should yield additional significant rate base growth of $450-$600 million over the next five years.

- **Montana Electric Case** - The company also has opportunities for growth in a sooner-than-later necessary Montana electric base rate case due to a growing un-recovered rate base and a restructuring of the Dave Gates Generating Station. The company is currently earning below its allowed ROE.

- **Montana Gas Case** - The 2017 Montana natural gas increase should also improve earned ROEs going forward.

- **ROE Stability** - Despite the drag of these last two issues, the company has been earning a respectable 9.5%-10.0% ROE for an extended period.

As Moody’s noted in reducing NorthWestern’s credit outlook to negative in 2016, the fundamental outlook for the company is significantly less clear after 2016 with few definitive fundamental drivers. The company is likely to require additional generation resources regularly over the next 20 years or so to address a widening gap between resources and peak demand loads. Yet, the opportunity remains unclear (particularly as it relates to the MPSC’s view).

In the absence of new large investment/earnings opportunities over the near-term, in our opinion, the following uncertainties cloud the outlook for NWE shares:

- **Near-Term EPS Growth** - We expect only EPS growth of 3%-4% over the next few years. This level of growth is inferior to most of its peers and should weigh on the stock’s upside potential for now.

- **Rate Cases** - The growing gap between authorized and actual rate base in Montana will require a base electric rate case in 2018. The MPSC also expects a GRC filing sooner rather than later. At this point, a filing appears both dangerous and unlikely to yield a favorable outcome, in our view. The complexities of the case, the size, and the timing of the case provide little insight into NorthWestern’s earnings subsequent to 2017. More capital investment riders, automatic rate adjustment mechanisms, and conservation/lost revenue recovery, etc. would be useful for the company, and are a beneficial staple in many other jurisdictions. Unfortunately, we do not expect any of these things from the MPSC.

- **Few Near-Term EPS Catalysts** - Until the realization of the Montana natural gas case growth, and a
Montana electric base rate case filing, cost control efforts and load growth will dominate the company’s outlook and will put pressure on NorthWestern’s financial results after 2017, in our view.

- **Regulatory Environment** - The Montana Public Service Commission (MPSC) eliminated the Lost Revenue Adjustment Mechanism (LRAM) in 2015 in what appeared to us to be a punitive decision. Not only did the decision reduce annual revenues by about $7 million annually, in our opinion, it does not bode well for prospective Montana rate filings with this often capricious and mercurial commission. The Colstrip disallowance and legislative efforts to fight tracking mechanisms only reaffirmed that the MPSC can be an unreliable and shareholder unfriendly regulatory jurisdiction (again), in our view. Things have only gotten worse over time, in our opinion. Last week was only icing on what was already a bad cake.

- **Poorly Defined Growth** - While we were certainly excited by the company’s Montana electric generation resource needs, no Montana generation opportunity is yet to be approved, appears contentious, and remains uncertain in terms of amounts and timing. Certainly, much of the opportunity is outside of both our forecast period and valuation window.

- **Declining Tax Benefits** - As we approach later in the decade, declining tax benefits will eventually begin to put pressure on NorthWestern’s effective income tax rate, adding some additional pressure on the company’s financial results over time.

In our view, NorthWestern remains in a very good strategic position. The merits of NWE’s plain vanilla utility growth strategy appear only clearer in the current defensive market environment, in our opinion. The company will only require external equity if major growth projects beyond current CAPEX plans are pursued and refunding requirements are modest for a number of years. We expect rate base to grow modestly through 2021 due to less aggressive net rate base growth, natural gas production acquisition potential, distribution/transmission reliability capital spending, and with some further customer growth, in our view. The considerable decline in the stock since the 2016 peak also alleviated our concerns about previously excessive valuations, in our view. As we continue to monitor the company, additional insights into the company’s fundamental prospects and rate filing schedules/plans could prove material to our opinion over the next 12 months. However, generation resource investment delays are a disappointment. The regulatory environment for the company in Montana also scares us silly. We can see potential here, just not yet despite the relative valuation gap evident in the stock.

**Valuation**

We see fair value for NWE shares of $64.00 being readily achievable over the next 12-months as the stock is valued more directly on 2019 earnings, dividend, and cash flow expectations; the base rate issues/outcomes/filings become clearer, and new rates are implemented, in our view. We note that our target valuation is a composite of multiple techniques that does not rely solely on P/E to determine our target price.

We derive our 12-month valuation for the stock using multiple valuation methodologies, including a sum-of-the-parts, price-to-earnings, price-to-book, dividend yield, price-to-cash flow, and Enterprise Value-to-EBITDA methodologies based on our 2018 fundamental estimates. We have valued NWE shares based largely on NWE’s average historic valuation metrics upon which the stock has traded over the past decade with further consideration of utility valuations since dividend tax cuts were enacted in May 2003, the divestiture of the majority of the more volatile non-regulated businesses and re-focus on pure utility operations, the prospective rate base and EPS growth, and the current defensive/yield oriented market.

In NWE’s case, we have valued the stock using a Dividend Yield range of 3.25%-3.75%, a Price-to-Book value of 1.5x-1.7x, a Price-to-Cash Flow value of 7.0x-9.0x, an EV/EBITDA value of 11.0x-13.0x and a P/E multiple of 17.0x-18.0x. Utilizing each of the aforementioned valuation methods, we derive a range of values of
$61.00–$71.00 for the stock based on our 2019 fundamental estimates. Our target price is then effectively the average of theoretical stock price values derived from each of these valuation techniques. We note that our target price reflects a valuation comparable to the stock’s 10-year historic valuation metrics.

The stock is currently trading at 17.1x our 2018 recurring EPS estimate, at a 3.44% indicated dividend yield, and roughly 1.64x our estimated 2018 year-end book value (2.05x tangible book). In our opinion, the stock is currently trading at a material discount to peer electric utility group valuations that reflects an average P/E of nearly 19.0x 2018 EPS and an average dividend yield of roughly 3.0%.

With the stock trading at only 17.1x/16.6x our 2018/2019 EPS expectations, the stock initially appears attractive relative to most utility peers. However, the company’s apparent growth profile pales by comparison to most peers. Our target valuation reflects a P/E valuation of 17.4x our 2019 recurring EPS estimates and a total return potential of about 8.3% over the next 12 months, including the current indicated dividend yield of 3.44%. In our view, our target valuation represents about a 1.0x discount to the peer group average valuation for electric utilities based on 2018/2019 estimates. We note that the stock has generally traded for an average P/E of 16.7x, a median dividend yield of 4.1%, and a median price-to-book of about 1.5x, with a dividend payout of over 64% over the past decade. Over the past three years the valuations have been higher with a P/E averaging 18.3x, an average dividend yield of 3.5%, and an average price-to-book of 1.6x. However, the company’s growth outlook has weakened relative to the past three years, in our opinion.

In our view, NWE shares deserve a material discount to the combination utility group and its peers for a number of reasons. First, we are making educated assumptions about regulatory outcomes that are inherently risky and critical to NorthWestern’s growth and financial outlook. Second, the regulation of the MPSC is at best unfriendly to shareholders and adds to “forecast risk.” Finally, the growth is less attractive for NorthWestern for the next few years with limited insight into improvement in the regulatory climate in Montana, NorthWestern’s most critical jurisdiction. While the market remains defensive and focused on yield, we do not believe that a higher valuation is appropriate for NWE shares than we reflect in our target price.

**Balance Sheet and Liquidity**

NorthWestern’s balance sheet stands capitalized at about 45.8% equity, materially more highly levered than is typical for U.S. utilities today. Given rate cases over the near term that should raise annual earnings, and the company’s likely free cash flow production in most years based on current capital investment plans, we are comfortable with the company’s current temporary leverage. We expect a stable to modestly improving balance sheet due to growing operating cash flows. The company maintains approximately $184 million of consolidated ready cash/liquidity, including roughly $12 million of cash, through current credit facilities as of Q117 end, and has more than adequate access to the commercial paper and capital markets to fund prospective capital requirements, in our view. The company’s senior secured debt is rated A– at Standard & Poor’s, A2 at Moody’s, and A at Fitch. While S&P and Fitch have NorthWestern on Stable outlooks, Moody’s does have the company on negative watch.

**Dividends**

We believe that NorthWestern’s dividend is secure as we expect the 2017-2019 dividend payout to remain in the 60%-65% range for the next few years. Going forward, based on NorthWestern’s current CAPEX budget and prospective balance sheet improvement, we do not expect the company to require significant external capital (certainly equity is very unlikely) over the next few years for other than debt refinancing. We do expect the significant improvement in 2017-2018 earnings and the stable utility source of those earnings to result in a moderate increase in the dividend (4%-5% annually).
As we expect continued earnings growth, and with the current indicated dividend payout (62.1% for 2017) well within the company’s targeted 60%-70% range, we expect the dividend to demonstrate sustainable growth. The dividend appears very secure, particularly given NorthWestern’s free cash flow generation and modest debt maturities through 2020, in our view. The stock is providing a current indicated dividend yield of 3.48% which we believe is attractive relative to the electric and natural gas utility groups.

NorthWestern has paid common dividends continuously since 2005. The company has increased the dividend every year since 2004. On February 17 the company raised the dividend 5.0% to $0.525, $2.10 per share from $0.50, $2.00 per share. In our view, management is dedicated to providing an attractive, competitive yield and a growing dividend. We expect the company to continue to increase the dividend annually at a 4.0%-5.0% rate during the current CAPEX program, consistent with the company’s current dividend policy/payout target and consistent with actual EPS growth that we expect. Some of the company’s debt covenants can restrict the payment of dividends under conditions that we do not expect.

The 3.48% current indicated dividend yield remains relatively attractive compared with fixed income alternatives and very attractive relative to comparable peer electric utility yields with an average yield of only about 3.2%. We note that the average yield on the stock over the last 10 years has been closer to 4.1%, but reflective of higher comparable interest rates and dividend yields, higher historical dividend payouts, a greater regulatory risk premium, and more variable earnings power and financial strength, in our view. Given our recurring EPS forecast, we believe that the company will be able to easily sustain the dividend payout that is now more in-line with the industry and that we expect to continue to decline over the next few years.

**Regulatory Environment**

NorthWestern Corporation, d/b/a NorthWestern Energy is regulated by the Montana Public Service Commission (MPSC), the Nebraska Public Service Commission (NPSC), and the South Dakota Public Utilities Commission (SDPUC). All three are elected commissions for six year terms. Both the Montana and Nebraska commissions consist of five members while the South Dakota commission consists of three. Over 80% of the company’s gross margin is derived from the Montana jurisdiction. The Montana commission has a nine month statutory review period and can allow interim rates, but rarely uses them. The South Dakota commission has a six month statutory review period and allows interim rates six months after filing. The Nebraska commission has a seven month statutory review period and allows interim rates 60 days after filing. The Montana legislature meets in alternate (odd) years. The company files an Electricity Supply Resource Procurement Plan (IRP) every two years (odd) that covers a 20 year forecast period.

Much like many elected commissions, the Montana Public Service Commission (MPSC) can certainly be as capricious and unfriendly to shareholders as the best of them, if not the worst in the U.S. The MPSC has a proven track record over the years. The mood of the MPSC changes as often as the commission elections that bring new commissioners to the bench. Just when we thought the MPSC had improved markedly in recent years, we are not sure where the MPSC sits today. The MPSC has now risen beyond the level of the New Mexico Public Regulation Commission (NMPRC), in our opinion.

Given the recent adverse rulings of the MPSC, we are very cautious about the regulatory environment in NorthWestern’s most critical state. We might normally wonder what management has done wrong to incite the commission. However, with Bob Rowe at the helm of the company, and given his experience as a commissioner in Montana, the situation suggests otherwise. As a result of the current state of regulatory relations in Montana, we are more cautious about both growth at the company and the valuations we are currently willing to ascribe to the stock.
Company Background

NorthWestern Corporation, based in Sioux Falls, South Dakota is principally a combination electricity and natural gas utility that has a foundation dating back to 1913 in Montana. After failed non-regulated diversification efforts in the 1990s, the company filed for bankruptcy protection in 2003. Emerging from bankruptcy in 2004, the company has been virtually 100% utility focused since. The company has roughly 430,000 electric customers and 300,000 natural gas customers in Montana, South Dakota, and Nebraska. The company also serves Yellowstone National Park in Wyoming. While based in South Dakota, nearly 80% of the company’s customers and nearly 80% of the company’s gross margin comes from the Montana jurisdiction. Also, nearly 80% of the utility gross margin is derived from the electric utility. The company owns approximately 1,250 megawatts of electric generation.
20 Questions for Management

1) How do you interpret the MPSC’s current regulatory climate given the recent adverse regulatory decisions (LRAM, gas production, Colstrip)?

2) How do you react to the MPSC’s new generation investment policy of last week?

3) How do you expect to address revisions to your Montana generation resource plan?

4) Will you re-file, when, how will NorthWestern respond to MPSC’s issues with your filed plan?

5) Do the recent MPSC rulings and the current mood of the MPSC influence your investment thinking?

6) What can NorthWestern due to improve the Montana regulatory climate?

7) When do you expect to have greater insight into hydro expansion potential?

8) When do you expect to have more clarity on regional/state responses to the EPA’s plan and your capital plans?

9) How do you see Western EIM membership and NERC reserve margin requirements affecting your resource plan/company?

10) What are your thoughts on natural gas acquisitions in the current environment?

11) Other than your intentions for a Montana rate case filing, what else should we look for in your April Montana annual report filing?

12) What are your general thoughts on earned ROEs going forward?

13) Given depletion affects on earnings, have you altered your natural gas acquisition strategy?

14) How would you characterize the natural gas case in Montana so far?

15) What is the latest on DGGS optimization?

16) Can we infer from your growth expectations that operating cost control efforts are a key element of your earnings growth plan for the near term?

17) When will you have more details on the MPSC tracker changes?

18) What size acquisition or investment triggers equity?

19) Can you elaborate on your South Dakota generation resource plan expectations?

20) Do you expect 5% to be a more constant dividend growth rate at this point or will annual increases vacillate over time?
We see fair value for NWE shares of $64.00 being readily achievable over the next 12-months as the stock is valued more directly on 2019 earnings, dividend, and cash flow expectations; the base rate issues/outcomes/filings become clearer, and new rates are implemented, in our view. We note that our target valuation is a composite of multiple techniques that does not rely solely on P/E to determine our target price.

We derive our 12-month valuation for the stock using multiple valuation methodologies, including a sum-of-the-parts, price-to-earnings, price-to-book, dividend yield, price-to-cash flow, and Enterprise Value-to-EBITDA methodologies based on our 2018 fundamental estimates. We have valued NWE shares based largely on NWE’s average historic valuation metrics upon which the stock has traded over the past decade with further consideration of utility valuations since dividend tax cuts were enacted in May 2003, the divestiture of the majority of the more volatile non-regulated businesses and re-focus on pure utility operations, the prospective rate base and EPS growth, and the current defensive/yield oriented market.

In NWE’s case, we have valued the stock using a Dividend Yield range of 3.25%-3.75%, a Price-to-Book value of 1.5x-1.7x, a Price-
to-Cash Flow value of 7.0x-9.0x, an EV/EBITDA value of 11.0x-13.0x and a P/E multiple of 17.0x-18.0x. Utilizing each of the aforementioned valuation methods, we derive a range of values of $61.00-$71.00 for the stock based on our 2019 fundamental estimates. Our target price is then effectively the average of theoretical stock price values derived from each of these valuation techniques. We note that our target price reflects a valuation comparable to the stock’s 10-year historic valuation metrics.

The stock is currently trading at 17.1x our 2018 recurring EPS estimate, at a 3.44% indicated dividend yield, and roughly 1.64x our estimated 2018 year-end book value (2.05x tangible book). In our opinion, the stock is currently trading at a material discount to peer electric utility group valuations that reflects an average P/E of nearly 19.0x 2018 EPS and an average dividend yield of roughly 3.0%.

With the stock trading at only 17.1x/16.6x our 2018/2019 EPS expectations, the stock initially appears attractive relative to most utility peers. However, the company’s apparent growth profile pales by comparison to most peers. Our target valuation reflects a P/E valuation of 17.4x our 2019 recurring EPS estimates and a total return potential of about 8.3% over the next 12 months, including the current indicated dividend yield of 3.44%. In our view, our target valuation represents about a 1.0x discount to the peer group average valuation for electric utilities based on 2018/2019 estimates. We note that the stock has generally traded for an average P/E of 16.7x, a median dividend yield of 4.1%, and a median price-to-book of about 1.5x, with a dividend payout of over 64% over the past decade. Over the past three years the valuations have been higher with a P/E averaging 18.3x, an average dividend yield of 3.5%, and an average price-to-book of 1.6x. However, the company’s growth outlook has weakened relative to the past three years, in our opinion. In our view, NWE shares deserve a material discount to the combination utility group and its peers for a number of reasons. First, we are making educated assumptions about regulatory outcomes that are inherently risky and critical to NorthWestern’s growth and financial outlook. Second, the regulation of the MPSC is at best unfriendly to shareholders and adds to “forecast risk.” Finally, the growth is less attractive for NorthWestern for the next few years with limited insight into improvement in the regulatory climate in Montana, NorthWestern’s most critical jurisdiction. While the market remains defensive and focused on yield, we do not believe that a higher valuation is appropriate for NWE shares than we reflect in our target price.

Risk
In our view, NorthWestern Corporation common shares represent the level of risk that we believe is inherent in an average publicly traded stock/company. Since the Montana PSC authorized Colstrip Unit 4 in regulated rate base, much of the commodity volatility/uncertainty in the company’s earnings profile has been reduced. However, the company remains materially short generation (~28% reserve margin). In our view, NorthWestern’s risk profile is significantly elevated relative to the average combination electric and natural gas utility due to its small size, the considerable capital growth program the company is undertaking, and the greater regulatory risk associated with the Montana PSC (currently elevated). Nevertheless, the company is entirely composed of traditional regulated utilities, which is an important factor in our risk assessment. We do not foresee any material financial risks at this time. The company is well capitalized and the company’s liquidity as represented by its cash flow and fixed charge coverage is very good, in our view. As the company completes its capital programs and potential prospective Montana rate cases, we believe NorthWestern’s risk profile should actually become more aligned with a lower risk profile in time, assuming less adverse future decisions from the MPSC.

However, significant delays in filing a Montana electric rate case could begin to affect the company’s financial results starting in 2017 as significant capital investments could go without requisite revenue recovery. Difficulty in completing and/or financing the company’s growth projects could also materially affect the company’s growth profile, earnings and cash flow results, and investor interest in the stock. The regulatory response to the company’s investment plans could also affect the timing and ultimate impact of potential investments on earnings and cash flow. The Montana regulatory environment is always a significant risk. However, we believe the company will continue to improve its relationship with Montana regulators and we believe that there is local support for much of the company’s infrastructure investment plans in the long term. A significant rise in interest rates or dividend tax rates could also put significant pressure on utility operating costs and utility equity valuations. At this point, we are more worried about macroeconomic issues affecting the stock than company fundamentals other than the Montana regulatory environment. However, the Montana regulatory environment requires constant monitoring given recent adverse decisions and policies.


**ANALYST CERTIFICATION**

I, Christopher R. Ellinghaus, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their securities. I further certify that no part of my compensation was, is, or will be directly, or indirectly, related to the specific recommendations or views contained in this research report.

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**HOLD:** In the analyst’s opinion, the stock will perform in line with the S&P 500 on a total return basis over the next 12 months.

**SELL:** In the analyst’s opinion, the stock will underperform the S&P 500 on a total return basis over the next 12 months.

**DISTRIBUTION OF EQUITY RESEARCH RATINGS AS OF: JULY 3, 2017**

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