

Fitch Rates Exelon Corp.'s Junior Subordinated Notes 'BBB-'

Written by Australian Business

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings has assigned a 'BBB-' rating and Negative Watch to Exelon Corp.'s (EXC) new \$1.0 billion issuance of 2.50% junior subordinated notes (the Notes), which are a component of EXC's equity units. The equity units consist of the Notes due 2024 and a forward purchase contract obligating the holder to purchase on June 1, 2017, \$1.0 billion of EXC shares.

The Notes will be pledged as security for the holders obligation to purchase the EXC common stock on June 1, 2017. The securities will be remarketed in 2017 as junior subordinated obligations of EXC and will remain outstanding until maturity in 2024. The Notes will initially pay an annual fixed 2.50% rate of interest, payable through June 1, 2017.

Holders of the equity units will also receive annual contract payments of 6.50% on the forward purchase contract.

Prior to respective remarketing dates in 2017, EXC will have the right to defer interest on the securities one or more times for one or more consecutive interest periods without giving rise to an event of default.

Under Fitch's criteria, the junior subordinated notes will receive no equity credit.

Net proceeds of the equity units will be used to fund a portion of EXC's pending acquisition of Pepco Holdings, Inc.

The ratings of EXC are on Rating Watch Negative.

KEY RATING DRIVERS

Negative Rating Watch: The Negative Rating Watch reflects EXC's pending acquisition of Pepco Holdings, Inc. The proposed acquisition results in a meaningful increase in consolidated leverage compared to EXC's current and projected stand-alone financial condition. The rise in leverage is driven by the combination of the acquisition debt to be

issued by EXC and the assumption of existing PHI consolidated debt.

Business risk: Fitch does not believe that the acquisition of PHI will meaningfully lessen EXC's business risk. The pro forma earnings contribution from regulated businesses increases to approximately 60% to 65% of pro forma earnings over 2015 - 2016 compared to about 55% to 60% on a stand-alone basis.

Competitive Generation Business: EXC's competitive generation business is exposed to commodity price volatility in the markets in which it operates. It seeks to minimize the commodity risk by hedging a portion of its portfolio on a three-year rolling basis. The hedge targets are approximately 90% - 98% in the prompt year, 70% - 90% in year two and 50% - 70% in year three.

Financial measures: Fitch expects consolidated cash flow leverage and fixed charge coverage measures of the combined entities to remain solidly within the 'BBB' category, but meaningfully weaker than EXC's standalone credit profile without a significant reduction in the risk profile. Fitch forecasts Debt/EBITDAR in the first full year of operation to be less than 4.0x and FFO fixed charge coverage in the range of 5.5x to 6.0x.

RATING SENSITIVITIES

Positive: Positive rating action is not likely at the present rating level.

Negative: Regulatory concessions in excess of those assumed in the financial forecasts or a reduction in asset sale proceeds that is not funded with equity could have an adverse effect on ratings.

Even without the completion of this merger ratings may also be lowered in recognition of EXC's willingness to pursue a leveraged acquisition and/or if there is not a material improvement in wholesale power prices.

Additional information is available at ' www.fitchratings.com '.

Applicable Criteria and Related Research:

--'Corporate Rating Methodology' (Aug. 8, 2012);

--'Rating North American Utilities, Gas and Water Companies' (May 16, 2011);

--'Recovery Ratings and Notching Criteria for Utilities' (Nov. 13, 2012);

--'Treatment and Notching of Hybrids in Nonfinancial Corporate and REIT Credit Analysis' (Dec. 13, 2012);

--'Parent and Subsidiary Rating Linkage' (Aug 8, 2012).

Applicable Criteria and Related Research:

Corporate Rating Methodology — Effective 12 August 2011 to 8 August 2012

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=647229

Recovery Ratings and Notching Criteria for Utilities

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=722085

Treatment and Notching of Hybrids in Nonfinancial Corporate and REIT Credit Analysis
- Effective Dec. 13, 2012 to Dec. 23, 2013

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=696670

Parent and Subsidiary Rating Linkage

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685552

Additional Disclosure

Solicitation Status

http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=834378

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