FirstEnergy Corp.

Boring on purpose: a regulated grid compounder whose defensiveness becomes more valuable when markets stop pricing only upside

Ticker / reference price	Equity / enterprise value	2026 core EPS guidance	Current income yield
NYSE: FE / $47.41	~$27.4bn / ~$55.8bn	$2.62-$2.82	3.9% dividend

Reference price as of August 14, 2026; operating data through June 30, 2026. Enterprise value uses approximately $28.4bn of debt and short-term borrowings. [1][2][7]

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5-YEAR TSR REFERENCE CASE: 13.4% = 3.9% + 7.5% + 2.0%			
13.4%	3.9%	7.5%	2.0%
Annualized TSR	Dividend yield	Core EPS growth	Multiple reversion

Mechanical bridge: $47.41 / $2.72 midpoint 2026 core EPS = 17.4x, reverting over five years to a normalized 19.2x decade mean. Management targets growth near the top of 6%-8%; this bridge uses 7.5%. [1][6][7]

Thesis

FirstEnergy owns regulated distribution and transmission networks serving six million customers across economically diverse Midwestern and Mid-Atlantic states. A $36bn five-year grid plan should compound rate base about 10% and core EPS near the top of 6%-8%, while the 3.9% dividend pays investors to wait. The less obvious attraction is portfolio-level: the market is rewarding maximum upside, but a steady utility can preserve capital and rebalance capacity when that enthusiasm reverses. Boredom is not an absence of return; in a correction it can be dry powder in equity form. The price is reasonable rather than distressed, and legacy Ohio conduct, financing needs and regulatory execution keep the position below full size. [1][2]

Four-question scorecard

Question	Score	Why it is not higher
Business quality	4.0 / 5.0	Essential monopoly wires and visible rate-base growth; regulation, capital intensity and storms cap quality
Price	4.0 / 5.0	17.4x core EPS is below a normalized decade mean with a 3.9% yield, but not a crisis valuation
People / allocation	4.0 / 5.0	Tierney brings elite utility, finance and infrastructure experience; legacy culture and equity funding remain tests
Hidden nugget	4.5 / 5.0	Defensiveness is undervalued when the market looks only for upside; boredom can be valuable in a drawdown

2 Business and Industry

A regulated network earns on prudent capital invested into reliability, resilience and demand growth

Business model in plain English

FirstEnergy's utilities deliver electricity through local distribution systems and high-voltage transmission lines. Regulators allow recovery of operating cost plus a return on approved equity invested in the network. The economic engine is therefore not power-price speculation; it is deploying capital into useful assets, obtaining timely rate recovery and operating reliably enough to retain regulatory trust. [1][2]

Segment	Economic role	Current evidence	Underwriting implication
Distribution	Local wires and customer service	Large base across OH, PA, NJ, WV, MD and NY	Essential demand; state-by-state rate risk
Integrated	WV utility plus transmission / generation	Transmission rate base +22% in Q2	High growth; generation and project execution add risk
Stand-alone transmission	FERC-regulated high-voltage network	Rate base +11% in Q2	Formula rates improve visibility
Corporate / financing	Funds capex and shared functions	Interest cost rises with investment	Financing discipline matters per share

Why business quality is 4.0 / 5.0

- Electricity delivery is essential, local networks are natural monopolies and customer churn is economically irrelevant.
- Formula-rate transmission investment shortens the lag between capital deployment and earnings; roughly $19bn of the 2026-2030 plan is transmission. [2]
- Demand optionality is improving: contracted plus pipeline data-center demand reached 24.8 GW in Q2, including 6.4 GW contracted. This is upside, not required in the base case. [1]
- The business is highly capital-intensive and earns an allowed—not unlimited—return. Affordability, storm performance and political trust determine how much capital becomes owner earnings.
- The Ohio bribery scandal proves that a legal monopoly can still destroy trust and value. Governance recovery must be treated as an operating asset, not a completed cleanup item.

Industry structure

Force	Assessment	Investment consequence
Customer demand	Defensive	Volume is steadier than most sectors; electrification and data centers add growth
Regulators	Powerful	Allowed ROE and recovery timing can overwhelm volume growth
Suppliers / labor	Tight	Transformer, contractor and wage inflation can raise capex and delay projects
Substitution	Very low	Distributed energy changes flows but still depends on the grid

CUSTOMER VALUE PROPOSITION Reliability and resilience at a politically tolerable bill. Every return assumption is subordinate to delivering both.

3 Financials and Business Quality

The growth plan is unusually visible; financing and regulatory recovery determine whether rate-base growth becomes per-share growth

Metric	2024	2025	H1 2026 / outlook	Underwriting read
Revenue	$13.5bn	$15.1bn	$7.9bn H1	Weather and rates move reported revenue
Core EPS	$2.37	$2.55	$1.22 H1 / $2.62-$2.82 FY	7.5% Q1 growth; Q2 on plan
Capital deployed	~$4.5bn	$5.6bn	$2.9bn H1 / $6.0bn FY	Investment cadence is accelerating
Trailing consolidated ROE	n/a	~9%	9.5%	Execution must approach allowed returns
Dividend / share	$1.70	$1.78	$1.86 annualized	Income is meaningful; payout remains manageable

Company-reported core measures. 2024-2025 capital rounded; H1 2026 covers six months. [1][2]

Five-year owner-earnings bridge

Driver	Base assumption	Why plausible	Failure test
Rate base	~10% CAGR	$36bn Energize365 plan	Permitting, supply or affordability delays
Core EPS	7.5% CAGR	Near top of 6%-8% target	Dilution / interest consumes growth
Allowed / earned ROE	Stable to modestly better	Formula rates and operating discipline	Earned ROE <9% for four quarters
Share count	~1% annual issuance	Management financing plan	Equity need materially exceeds plan
Dividend	4%-6% CAGR	Payout below core EPS growth	Credit pressure freezes growth

Balance sheet, ratings, maturities and covenants

Position. At June 30, 2026, long-term debt was roughly $27.1bn, short-term borrowings $1.38bn and cash $63m. This is normal utility leverage, but the five-year capital plan leaves little room for rate-case mistakes. **Ratings.** FirstEnergy Corp. is BBB+ / Stable at S&P, Baa3 / Positive at Moody's and BBB / Stable at Fitch; senior unsecured ratings are investment grade. **Covenants.** The parent must maintain consolidated interest coverage of at least 2.50x. Operating-company revolvers generally cap debt-to-total-capital at 65%; FET's cap is 75%. Cross-default provisions generally begin above $100m. The company reported compliance. [3]

2026	2027-2028	2029-2030	Thereafter
$0.7bn	$4.5bn	$5.5bn	$15.7bn

Contractual maturities from the 2025 10-K, rounded. Revolvers generally extend to 2029; FET's extends to 2030. [3]

4 Valuation, Hidden Nugget and LBO

The shares offer a fair utility multiple; the unpriced asset is what steadiness can do for the whole portfolio

Ten-year P/E context

Normalized 2016-2025 annual P/E	Low	Average	High	Today / 2026E
Positive, non-charge-distorted observations	13.7x	19.2x	25.3x	17.4x

GAAP loss years and the 2022 charge-distorted observation are excluded. Current uses the $2.72 core EPS midpoint; the history is a valuation reference, not precise comparability. [6][7]

Five-year valuation cases

Case	2031 core EPS	Exit P/E	Cumulative dividends	2031 value	5-year TSR
Bear	$3.00	10x	~$9.50	$39.50	~(3.6)%
Base	$3.91	19.2x	~$10.50	$85.60	~12.5%
Bull	$4.19	22x	~$11.00	$103.20	~16.8%

Bear/base/bull EPS CAGR is 2%/7.5%/9%. Dividends are not reinvested. The bear case uses the requested 10x exit multiple. Analyst estimates.

Hidden nugget — defensiveness is an active portfolio asset

FirstEnergy's hidden value appears when the rest of the portfolio is under stress. Regulated demand, visible investment recovery and a near-4% cash yield should make earnings less sensitive to consumer confidence, advertising, inventory or credit cycles. That can reduce forced selling and create rebalancing capacity precisely when higher-beta holdings become cheap. The current market is paying heavily for upside optionality; it may be underpaying for the option to remain calm. The nugget is 4.5/5.0, not 5.0, because utilities still fall when long rates rise or regulators question affordability.

Correction mechanism	Why FE may behave better	What breaks the defense
Earnings recession	Allowed returns and essential demand	Regulatory disallowance / industrial load shock
Liquidity panic	Dividend and investment-grade access	Ratings pressure or capital-market closure
Portfolio rebalance	Lower beta can fund bargains	Position too small or rates drive same drawdown

Illustrative take-private / LBO test

Stage	Illustrative assumption	Capital structure	Sponsor read
Entry	20% premium; ~ $61bn EV	Existing debt ~ $28bn; enormous equity check	Regulatory approvals dominate
Hold	7% EBITDA growth; heavy capex	Little safe incremental leverage	Cash is reinvested, not swept
Exit	~10x EBITDA after five years	Deleveraging limited	Low- to mid-single-digit IRR

LBO CONCLUSION A conventional sponsor buyout is economically and regulatorily implausible. The test is still useful: value must come from regulated compounding and dividends, not financial engineering.

5 CEO and Capital Allocation

Brian Tierney combines utility operations, finance and an infrastructure-owner mindset—the right mix for a capital-heavy cultural repair

Brian X. Tierney — background and fit

Period	Role	Why it matters
1998-2021	23 years at American Electric Power	Deep utility, regulatory and operating pattern recognition
2009-2020	AEP EVP and CFO	Led finance, strategy, procurement, supply chain and fleet
Earlier	AEP Utilities East / commercial operations	Ran distribution utilities plus trading, dispatch and 38 GW fleet
2021-2023	Blackstone Infrastructure — global portfolio operations head	Owner's lens on performance, capital and accountability
2023 / 2025	FirstEnergy CEO / Chair	Accountable for growth plan and post-scandal culture

Tierney has a Boston College BA, a Chicago Booth MBA and served in the Peace Corps in the Philippines. [4]

Capital-allocation audit

Action	Strategic logic	Judgment / question
$36bn Energize365	Modernize grid; ~10% rate-base CAGR	Best use if returns are timely and affordable
~$19bn transmission	Formula-rate visibility and demand growth	Higher-quality growth than long-lag discretionary capex
Dividend	$1.86 annualized / 3.9% yield	Useful portfolio income; growth should trail core EPS
Equity financing	Average ~1% of market cap annually	Reasonable only if per-share accretion survives
FET minority stake sale	Strengthened balance sheet and funded capex	Pragmatic; forfeits some future economics
Repurchases	Not a priority	Correct while leverage and capex dominate

Management judgment

- Tierney's experience matches the job unusually well: utility operations, CFO discipline and infrastructure-owner accountability in one résumé.
- The capital plan is coherent, but regulated utilities can make accounting growth look better than per-share value when equity issuance and lag consume returns.
- Combining chair and CEO concentrates authority after a serious governance failure. A strong lead independent director and transparent culture metrics are essential.
- The next proof point is not a larger capex plan; it is clean execution, earned ROE, rating improvement and core EPS per share without financing surprise.

PEOPLE / ALLOCATION — 4.0 / 5.0 The leader is highly fit for the strategy. The deduction is institutional: legacy conduct, combined chair/CEO authority and a financing-intensive plan still require proof.

6 Risks and Disconfirming Evidence

The thesis fails if regulatory trust, affordability or financing prevents rate-base growth from becoming per-share owner earnings

Risk	Why it matters	Early warning / thesis killer	Response
Regulatory / affordability	Bills fund returns	Repeated disallowances; earned ROE <9%	Cut EPS growth and multiple
Legacy conduct	Trust is the franchise	New material misconduct or controls failure	Exit; no governance discount is enough
Financing / dilution	$36bn plan exceeds internal cash	Equity issuance >plan; FFO metrics weaken	Cap size / lower per-share CAGR
Rates	Utility duration competes with bonds	10-year yield stays >5% without EPS upside	Demand lower entry P/E
Execution / supply chain	Projects must enter rate base	Persistent delays, cost overruns or transformer shortages	Reduce capex conversion
Storms / reliability	Outages raise cost and anger regulators	Reliability worsens despite capex	Question business quality
Data-center concentration	Large loads require infrastructure	Projects cancel after network spend	Exclude pipeline from base
Credit downgrade	Debt cost compounds across stack	BBB- or below / covenant headroom falls	No additions; reassess dividend

Pre-mortem: it is 2031 and the investment failed

FirstEnergy spent aggressively, but regulators delayed recovery as customer bills rose. Data-center projects did not arrive on schedule, supply-chain inflation lifted project cost and annual equity issuance exceeded the plan. Core EPS grew only 3%-4%, the rating moved toward the bottom of investment grade and long Treasury yields kept the multiple near 10x. The dividend softened the loss but did not compensate for weak per-share economics.

Disconfirming evidence hierarchy

A market drawdown is not disconfirming; it is part of the portfolio thesis. A hot quarter, storm cost or one adverse rate order is not decisive. The strongest evidence is earned ROE persistently below 9%, core EPS growth below 5%, equity needs materially above plan, a downgrade to BBB- or below, or any repeat governance failure.

SINGLE MOST IMPORTANT UNKNOWN Can FirstEnergy finance 10% rate-base growth while holding customer affordability, credit quality and per-share EPS growth together?

TWO-QUARTER DASHBOARD Earned ROE | rate-case outcomes | core EPS | capex placed in service | reliability | data-center contracts | equity issuance | FFO / debt | ratings

7 Portfolio Decision and Research Plan

The holding period is always 5-8 years; own enough boredom to matter when the rest of the market gets exciting in the wrong direction

Conviction	Score	Reason
Analytical	4.0 / 5	Rate-base and EPS algorithm are visible; regulation and financing remain the conversion risk
Portfolio	4.5 / 5	Dividend and lower economic sensitivity diversify a portfolio tilted toward upside
Temporal	4.0 / 5	Five years captures Energize365, credit repair and at least one full market cycle

Position-size recommendation

Initiate a 2.5% position around $47, with a 4.0% maximum. Add below $42 or during a broad 10%-15% market correction if rate recovery, ratings and core EPS remain intact. The position is large enough to provide ballast but small enough to respect capital intensity, Ohio governance history and a merely fair starting multiple.

Action	Price / evidence rule	Rationale
Buy starter	≤$48	13% reference TSR plus genuine portfolio defense
Add	≤$42 or market correction with thesis intact	Use defensiveness when its relative value rises
Full size	ROE ≥9.5%; EPS CAGR ≥6%; ratings stable / better	Confirms per-share conversion
Trim	>$55 without higher EPS or lower rates	Duration multiple outruns earnings
Exit	Governance relapse; EPS <5%; BBB- or worse	Franchise trust or financing thesis breaks

Return hurdle context

Cash / 3-month T-bill	U.S. 10-year Treasury	S&P 500 5-year TSR	S&P 500 10-year TSR	S&P 500 15-year TSR
~4.2%	~4.7%	14.1%	15.7%	14.3%

Cash and Treasury yields are mid-August 2026 snapshots; S&P 500 total returns are annualized through June 2026 with dividends reinvested. Historical equity returns are context, not a forward hurdle. [8][9]

Next research steps

- Rebuild state-by-state allowed and earned ROE, rate lag, affordability and reliability trends.
- Stress the five-year financing plan at 5%-6% debt cost and 2%-3% annual equity issuance.
- Separate contracted data-center demand from pipeline and map who funds stranded interconnection assets.
- Review post-HB6 controls, whistleblower metrics, political-spending governance and board independence.

FINAL DECISION BUY A 2.5% DEFENSIVE POSITION. Business quality is 4.0/5.0 and the hidden nugget is 4.5/5.0: boredom can be a source of liquidity and judgment in a market correction.

Source notes

[1] FirstEnergy Q2 2026 results

[2] FirstEnergy FY2025 results and 2026-2030 plan

[3] FirstEnergy 2025 Form 10-K

[4] FirstEnergy Brian Tierney biography

[5] FirstEnergy Ohio regulatory settlement

[6] FirstEnergy historical P/E series

[7] FirstEnergy market quote

[8] S&P 500 total-return history

[9] U.S. Treasury daily yield-curve rates

Framework source: Chapter 4 and Appendix E of Investing Book July 34(1). Facts are drawn primarily from company and SEC materials. Valuation normalization, scenarios, LBO returns and sizing are analyst estimates; credit terms should be reconfirmed from executed agreements before purchase.

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