

# Essential Utilities Inc. Earnings Call

First Quarter 2020





**Welcome**

## **Brian Dingerdissen**

Vice President, Chief of Staff, Investor  
Relations, and Communications

# Forward Looking Statement

This presentation contains in addition to historical information, forward looking statements based on assumptions made by management regarding future circumstances over which the company may have little or no control, that involve risks, uncertainties and other factors that may cause actual results to be materially different from any future results expressed or implied by such forward-looking statements. These factors include, among others, the following: general economic and business conditions; weather conditions affecting customers' usage or the company's cost of operations; costs arising from changes in regulations; regulatory treatment of rate increase requests; availability and cost of capital; the success of growth initiatives, including pending acquisitions; the ability to generate earnings from capital investment; and other factors discussed in our Form 10-K, which is on file with the SEC. We undertake no obligation to publicly update or revise any forward-looking statement.

## **Non-GAAP Reconciliation**

For reconciliation of non-GAAP financial measures, see the Investor Relations section of the company's Web site at [www.essential.co](http://www.essential.co)

# Agenda

*Chris Franklin* – Company Update

*Dan Schuller* – Financial Update

*Rick Fox* – Operations Update

*Chris Franklin* – Summary and Guidance

Q&A



# Company Overview

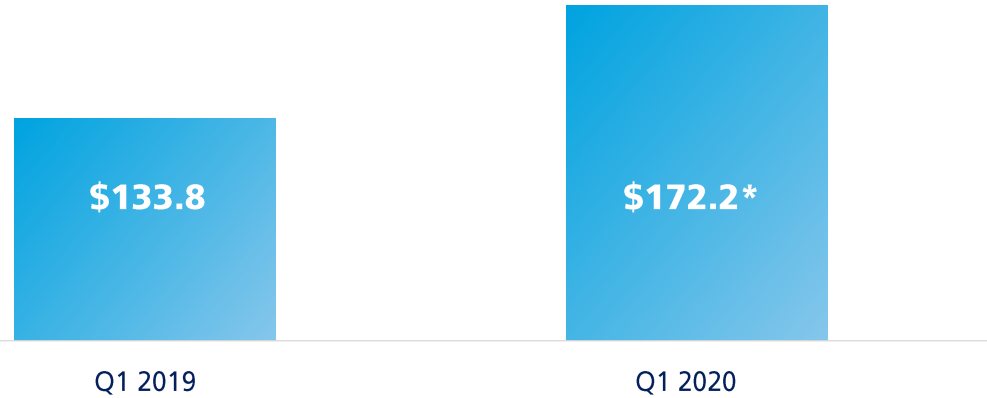
## Chris Franklin

Chairman, Chief Executive Officer, and President



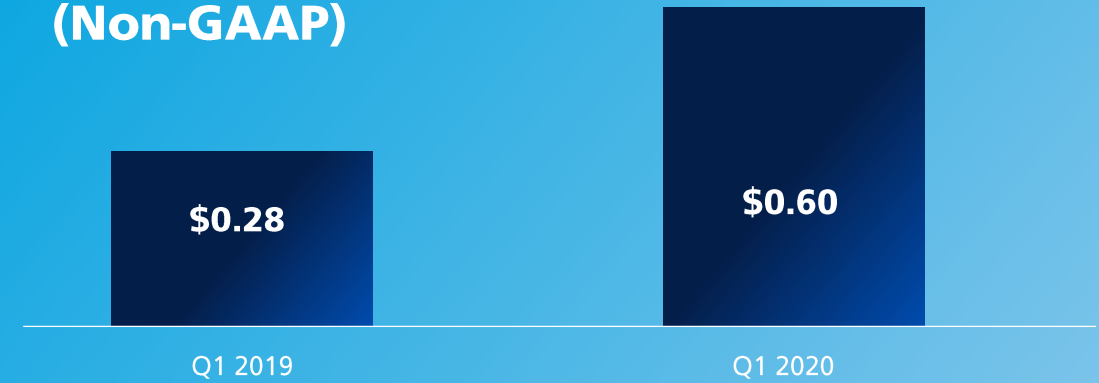
# Corporate Highlights

## Infrastructure Investment (\$m)



\*Includes \$53.5 million invested by Peoples, pre-closing.

## Adjusted Income per Common Share (Non-GAAP)



## Acquisition Growth

- Closed Campbell System adding approximately 3,100 water customers and \$7.5m of rate base
- Filed for regulatory approval with the Pennsylvania PUC for DELCORA, the largest municipal agreement in Company's history

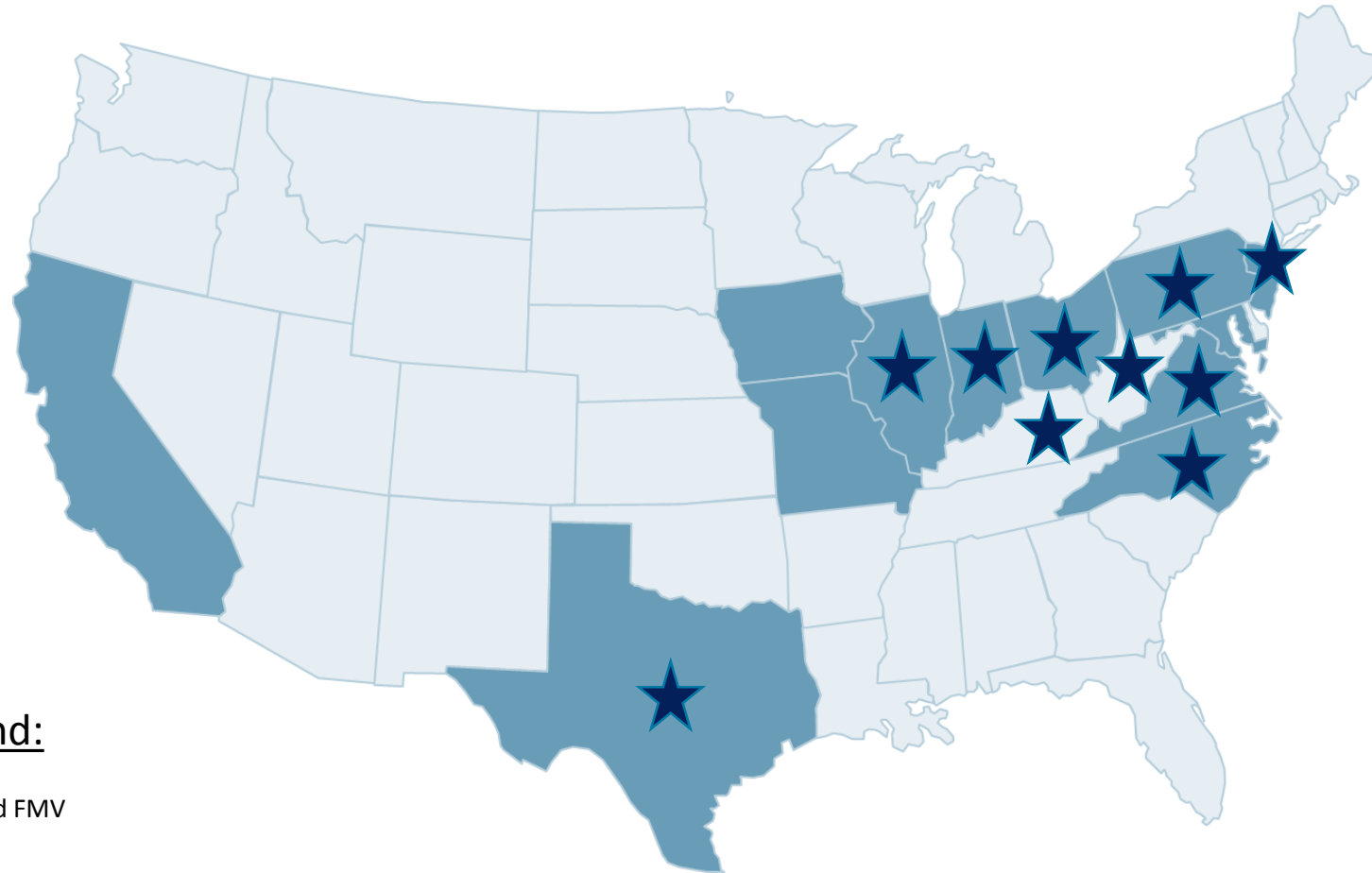
## Peoples Transaction

- Received Pennsylvania PUC Regulatory approval on January 16, 2020
- Closed the acquisition on March 16, 2020 and completed CPPIB's \$750 million Investment for approximately 21.7 million shares



# Fair Market Value Legislation

**Essential has a history of successful collaboration with legislatures and regulators to implement constructive regulatory mechanisms and introduce Fair Market Value (“FMV”) legislation. FMV is enacted in all of our 8 water/WW states.**



**Legend:**  
 Enacted FMV  
 Essential States

Essential State	Year Enacted - FMV
Illinois	2013
New Jersey	2015
Indiana	2015
Pennsylvania	2016
North Carolina	2018
Ohio	2018
Texas	2019
Virginia	2020

Source: S&P Global Market Intelligence



# 2020 Water Segment Acquisitions

\$100m of rate base acquired expected to generate ~\$5m of incremental annual earnings potential<sup>3</sup>

Since 2015 we have closed 57 total deals (includes investor-owned utilities and municipalities). These contributed approximately 48,000<sup>1</sup> new connections and approximately \$237M<sup>1</sup> in rate base.

## Closed Acquisitions

2020 Acquisition	State	Type	Total Customers	Approx. Rate Base (\$000s)
Campbell	OH	W	3,100	\$7,535
<b>Total</b>			<b>3,100</b>	<b>\$7,535</b>

## Signed Municipal Agreements Pending Closing

2020 Pending Acquisition	State	Type	Total Customers	Approx. Rate Base (\$000s)
New Garden	PA	WW	2,106	\$29,500
East Norriton	PA	WW	4,952	\$21,000
DELCORA	PA	WW	198,000 <sup>2</sup>	\$276,500
<b>Total</b>			<b>205,058<sup>2</sup></b>	<b>\$327,000</b>

**Note:** Transactions above listed in chronological order of signing. In addition, we have additional signed deal with a privately owned utility in IL that will add approximately 512 customers

<sup>1</sup>Rate base includes the Valley Creek Trunk Sewer. This is non-regulated but operates similar to a regulated asset; contributes an estimated \$25M in rate base equivalent

<sup>2</sup>Aqua's estimate on the number of equivalent retail customers.

<sup>3</sup>This is an illustrative earnings assumption based on assumed 50% debt / 50% equity capital structure and hypothetical 10% allowed return on equity and historical results.





# Essential COVID-19 Actions

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- Activated task force in February to coordinate strategy and execution
- Following Federal and local guidelines to ensure health and safety
- Communicating with all stakeholders on a frequent basis
- For Employees:
  - Working remotely where possible since March 16<sup>th</sup>
  - Revisiting work practices to maintain social distancing
- For Customers and the Communities we serve:
  - Suspended shut-offs and non-essential work that requires entering customer homes
  - Donated \$300k to support local food banks and organizations



# Financial Overview

## Dan Schuller

Executive Vice President, Chief Financial Officer



# First Quarter Highlights

As of March 31, 2020

 Favorable Change  Unfavorable Change

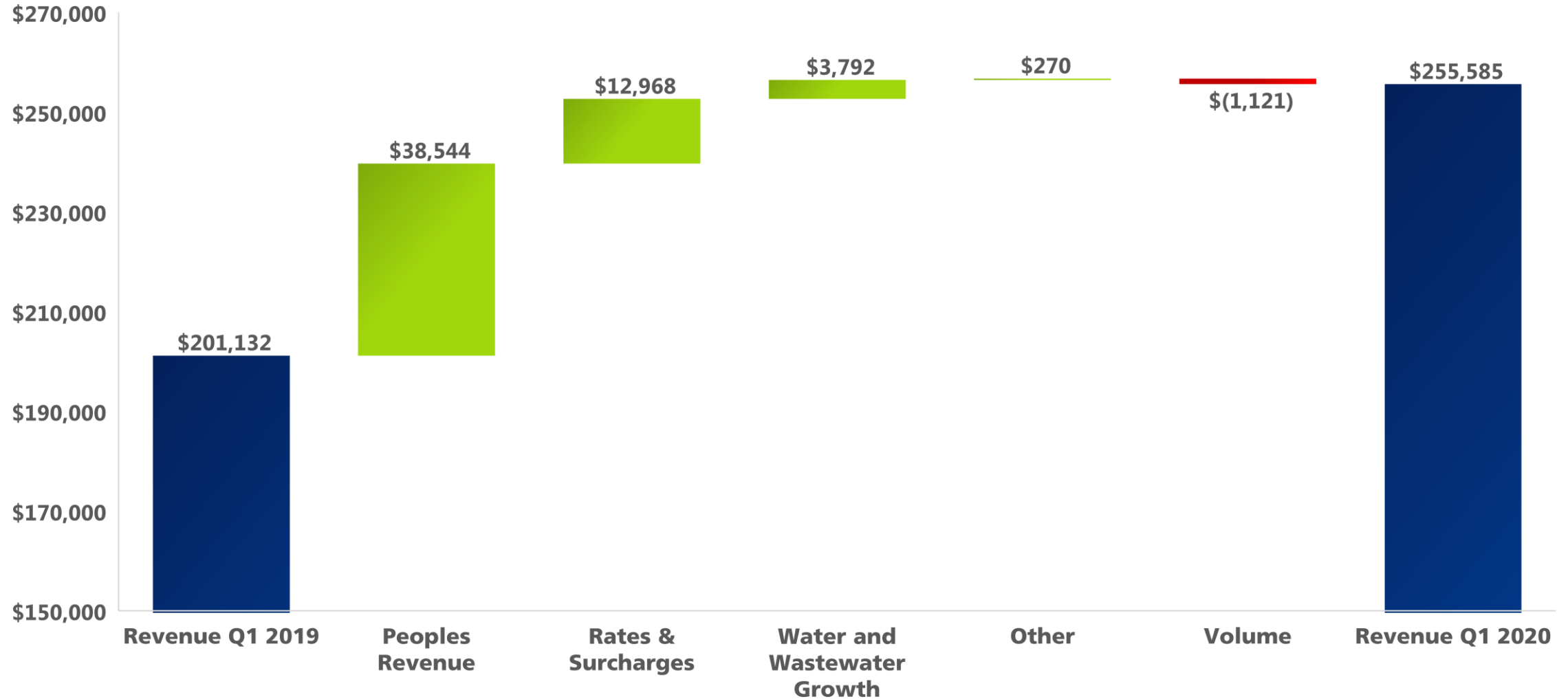
In millions except per share	Q1 2020		Q1 2019	Variance
<b>Revenue</b>	\$255.6		\$201.1	27.1%
<b>Operations and Maintenance Expense</b>	\$106.6		\$79.3	34.4%
<b>Net Income (GAAP)</b>	\$51.8		\$16.9	206.0%
<b>Net Income per Share (GAAP)</b>	\$0.20		\$0.09	122.2%
<b>Adjusted Income (non-GAAP)</b>	\$153.7		\$49.7	209.1%
<b>Adjusted Income per Share (non-GAAP)</b>	\$0.60		\$0.28	114.3%



# Operating Revenues

Q1 2020 vs. Q1 2019

Change in Operating Revenues (thousands)





# Operations & Maintenance Expenses

Q1 2020 vs. Q1 2019

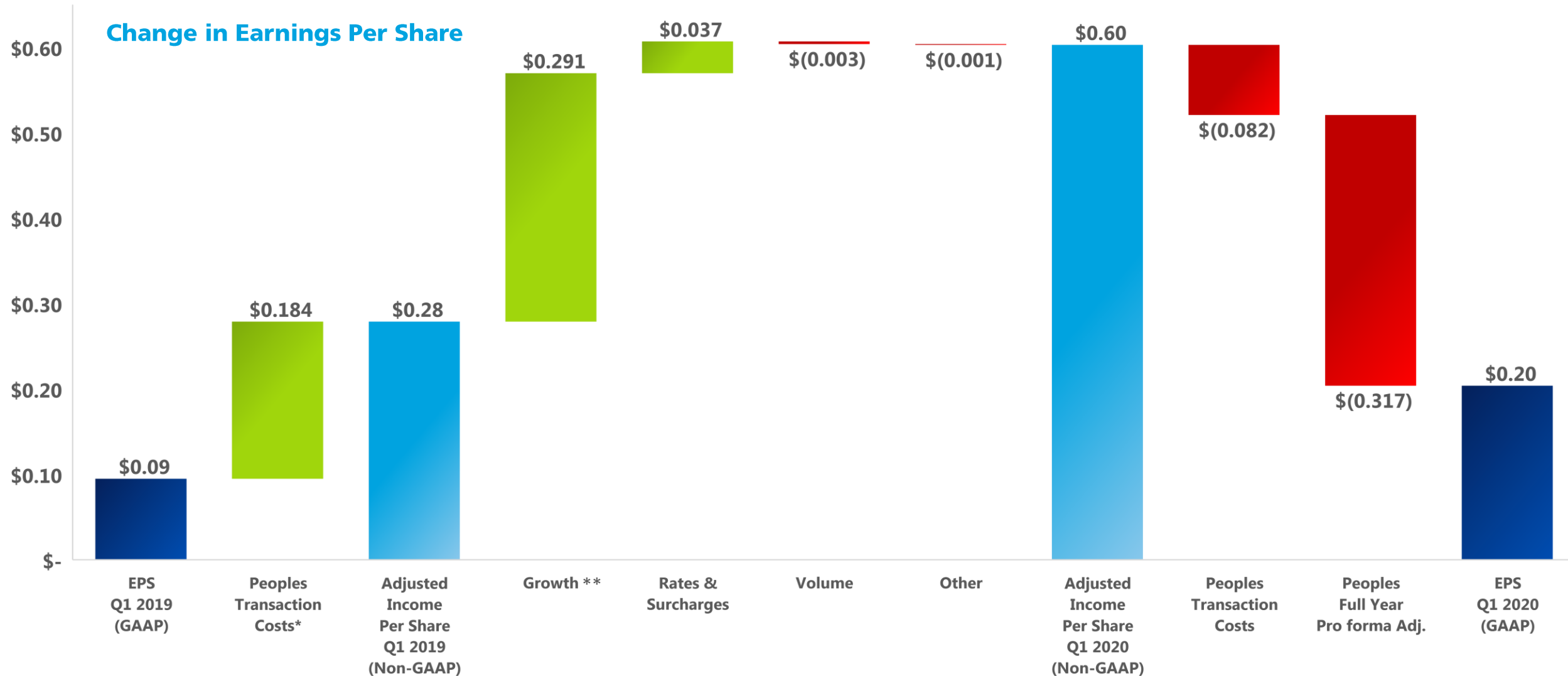
Change in Operations & Maintenance Expenses (thousands)





# Earnings per Common Share

Q1 2020 vs. Q1 2019



\*Includes \$0.154 per share impact from Mark-to-Market Adjustment of Interest Rate Swaps.

\*\*Includes growth of \$0.005 per share from regulated water segment.



# Rate Activity

As of 5/6/2020

## **2020 Completed Rate Cases and Surcharges**

- Water base rate cases or surcharges in IL, VA, OH, and NC with annualized revenue increase of \$5.2 million
- Gas surcharges in KY and PA with annualized revenue increase of \$977,000

As of 5/6/2020

## **Pending Rate Cases and Surcharges**

- Water base rate cases or surcharges in IN, NJ, NC, and OH with requested annualized revenue increase of \$10.1 million
- No pending gas base rate cases or surcharges

**Note:** Additional rate activity information provided in Appendix



# 2020 Debt Financings

## Essential \$500M Term-Loan

- 364-day term loan with PNC and four other relationship banks secured on April 3, 2020.
- Interest rate options - ABR + 0.375% or LIBOR + 1.375%. Currently borrowed under 30-day LIBOR option.
- Secured in order to ensure adequate liquidity through the ongoing COVID-19 pandemic.
- Proceeds were deposited into investment accounts with revolving credit facility participating lenders.

Completed

## Essential \$1.1B Public Debt

- Closed April 15, 2020
- Weighted average interest rate of 3.06% and weighted average life of 20.9 years
- Issued \$500M of 10 years and \$600M of 30 years
- Proceeds used to pay down:
  - Essential \$1B 5 year RCF
  - Peoples \$181M 364-day term loan
  - Essential \$150M 364-day term loan
- RBC and PNC led syndication
  - Syndicate included a diverse bank

## Aqua PA \$175M FMB

- Filed with the PAPUC in January 2020
- Weighted average interest rate of 3.52% and weighted average life of 33.5 years
- Proceeds will be used to pay down \$50M PA bank loan due 5/4/20, to reduce Aqua PA's revolving credit facility, pay a \$50M dividend to Essential, and fund an upcoming acquisition
- Closing on May 1, 2020

Completed

## Aqua PA \$150M FMB

- Filed with PAPUC in January 2020
- Proceeds will be used to refinance \$141.4M of 4.50% and 5.00% callable tax-exempt bonds and to reduce Aqua PA's RCF
- Closing planned for late November, 2020

Planned





# 2019 Customer Count and Revenue

By Customer Class

## Water Segment

Customer Class	Customers (#)	Customers (%)	Revenue (\$K)	Revenue (%)
Residential	822,817	80.1%	\$ 521,972	58.7%
Commercial	41,892	4.1%	\$ 145,581	16.4%
Industrial	1,339	0.1%	\$ 30,667	3.4%
Public	9,110	0.9%	\$ 13,251	1.5%
Fire Protection	9,832	1.0%	\$ 33,580	3.8%
Sewer	141,666	13.8%	\$ 105,244	11.8%
Other	48	0.0%	\$ 39,397	4.4%
<b>Total</b>	<b>1,026,704</b>	<b>100.0%</b>	<b>\$ 889,692</b>	<b>100.0%</b>

## Gas Segment

Customer Class	Customers (#)	Customers (%)	Revenue (\$K)	Revenue (%)
Residential	685,624	91.8%	\$ 624,245	68.7%
Commercial	59,471	8.0%	\$ 180,822	19.9%
Industrial	1,454	0.2%	\$ 57,245	6.3%
Other	-	0.0%	\$ 46,341	5.1%
<b>Total</b>	<b>746,549</b>	<b>100.0%</b>	<b>\$ 908,653</b>	<b>100.0%</b>



# Operations Overview

## **Rick Fox**

Executive Vice President, Chief Operating Officer



# COVID-19

## Keeping Workers Safe – Limiting Employee-to-Employee Exposure

- Home Start – Wherever possible
- Staggered Shop/Field Office/Plant Report Times - O&M and Construction crews
- Avoid Entering Shops/Field Offices
  - Work orders provided by supervisors at vehicles, via lap-tops/tablets or work phones
  - Work materials made available for pick-up on a staggered basis
  - In-person meetings minimized or discontinued; Work planning and meetings done electronically or practicing social distancing guidelines
- Work Crew Travel - 1 per vehicle – Use all company vehicles and use of personal vehicles
- Field Work - Evaluate tasks to limit crew size; strict safe distancing required
- Plant Work – Observe social distancing, work in different parts of the plant
- Cleaning – Developed protocols for vehicles, plants, facility and field work areas
- PPE - Cloth masks and face shields provided to all field workers



# COVID-19 Update – “Essential Work” - Field Operations

## Gas Operations

- O & M – Leak repairs, corrosion, damage prevention, GM&R, compressor & storage operations
- Emergency Premise Work
  - Inside and Grade 1 Leaks
  - No gas/low pressure
  - CO Investigations
- Compliance – Leak surveys, inspections (critical valves, regulating stations, odorization), test station reads
- Construction – Pipeline replacement, ERT upgrades, G/T, compressor & regulating station upgrades



## Water Operations

- O & M – Leak repairs, main breaks, hydrant, and valve maintenance, curb box repair
- Emergency Premise Work
  - Water leak inside home
  - Sewer back up
  - Urgent water quality investigations
- Compliance – Routine visits and compliance sampling meeting all regulatory requirements
- Construction – Pipeline replacement, well station upgrades, new wells, restored well supplies, dam repair.

# Gas Operations - Gas Pipeline Safety Initiatives

## Over Pressure Protection/Gas Safety Self Review - Black & Veatch Report (Issued May 4, 2020)

### Findings & Recommendations

- Validation of Peoples Planned OPP Mitigation Steps (Immediate and Long-Term)
- Hydraulic Modeling of LP Systems – Strategic placement of 2<sup>nd</sup> form of OPP
- Installation of SCADA pressure sensing alarming equipment (LP systems)
- B&V regulating station risk model to prioritize station OPP upgrades
- GPS Project – Precise location/mapping of service taps, curb valves & meters
- Inclusion of OPP Mitigation Plan in DIMP; Management of Change Program
- Leak Management and UFG – Effective Programs meeting PUC & DOT-PHMSA requirements





# Summary and Guidance

## Chris Franklin

Chairman, Chief Executive Officer, and President



# What have we learned from COVID-19?

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- Strong management team able to coordinate and react under unique circumstances
- Remain on track to accomplish capital budget
- Ability to have 1/3 of work force productive and effectively work from home
  - Remote call centers
  - Underscores value of investing in technology
- Listen to employee concerns – providing consistent updates and holding virtual town hall meetings with employees
- Proactive communications to customers and support these same communities serve
- Departments across organization consistently communicate/hold meetings



# Guidance

## Earnings<sup>1</sup>

- **Adjusted income of \$1.53 to \$1.58 per share for 2020**
- **3 year earnings growth CAGR 5-7% for 2019 through 2022**

## Capex

- **Regulated water segment infrastructure investments of approximately \$550 million in 2020**
- **Regulated natural gas segment infrastructure investments of approximately \$400 million in 2020 on full-year basis (adjusted to include capital invested in 2020 prior to Essential's ownership)**
- **Infrastructure investments of approximately \$2.8 billion through 2022 in both water and natural gas operations to rehabilitate and strengthen systems**

## Rate Base

- **Rate base growth of 6 to 7 percent per year through 2022 in water<sup>2</sup>**
- **Rate base growth of 8 to 10 percent per year through 2022 in gas**

## Customer Growth

- **Total annual water customer growth of between 2 and 3 percent on average depending upon regulatory approval**
- **Gas customer count expected to be relatively stable for 2020**

<sup>1</sup> This illustrative guidance includes the full-year effects of the Peoples acquisition as if this transaction closed on January 1, 2020, by including an estimate of the results of Peoples for the period in 2020 prior to closing, excluding transaction-related expenses and the effects of transaction-related commitments to issue rate credits to utility customers.

<sup>2</sup>Represents rate base growth excluding acquisitions.



# Questions?

# Thank You for Attending Essential's First Quarter 2020 Conference Call

**Second Quarter 2020 Earnings  
Conference Call and Webcast**  
Thursday, August 6, 2020

For more information contact:

NYSE: **WTRG**



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## **Renee Marquis**

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# Appendix



# GAAP to Non-GAAP Reconciliation

(In thousands, except per share amounts)

	Quarter ended March 31,	
	2020	2019
<b>Net income (GAAP financial measure)</b>	\$ 51,781	\$ 16,924
<b>Adjustments:</b>		
<b>Plus: Transaction-related expenses for the Peoples transaction closed on March 16, 2020</b>	25,573	41,428
<b>Plus: Adjustments to provide full-year 2020 run rate of Peoples operating results, including additional net interest expense</b>	108,132	-
<b>Income tax effect of non-GAAP adjustments</b>	(31,803)	(8,628)
<b>Adjusted income (Non-GAAP financial measure)</b>	\$ 153,683	\$ 49,724
<b>Net income per common share (GAAP financial measure):</b>		
<b>Basic</b>	\$ 0.22	\$ (0.09)
<b>Diluted</b>	\$ 0.20	\$ (0.09)
<b>Adjusted income per common share (non-GAAP financial measure):</b>		
<b>Basic</b>	\$ 0.65	\$ 0.28
<b>Diluted</b>	\$ 0.60	\$ 0.28
<b>Average common shares outstanding:</b>		
<b>Basic</b>	236,122	178,213
<b>Diluted</b>	255,054	178,552



# 2020 Rates and Surcharges Completed

As of May 6, 2020

State	Docket Number	Segment	Type	Awarded Annualized Revenue Increase (\$thousands)
<b>Illinois</b>	N/A	Water	Surcharge	\$2,902
	N/A	Wastewater	Surcharge	\$369
<b>Virginia</b>	PUR-2019-00209	Water	Surcharge	\$137
	PUR-2019-00209	Wastewater	Surcharge	\$141
<b>North Carolina</b>	W-218, Sub 497A	Water	Surcharge	\$571
	W-218, Sub 497A	Wastewater	Surcharge	\$134
<b>Ohio</b>	89-7028-WW-TRF	Water	Rate Case	\$995
<b>Kentucky</b>	2020-00059	Gas	Surcharge	\$632
<b>Pennsylvania</b>	N/A	Gas	Surcharge	\$345
<b>Total</b>				<b>\$6,226</b>



# Rates and Surcharges Pending

As of May 6, 2020

State	Docket Number	Segment	Type	Requested Annualized Revenue Increase (\$thousands)
<b>Indiana</b>	45314 U	Water	Rate Case	\$53
	45308 U	Wastewater	Rate Case	\$11
<b>New Jersey</b>	WR20010056	Wastewater	Rate Case	\$1,090
<b>North Carolina</b>	W-218, Sub 526	Water	Rate Case	\$5,193
	W-218, Sub 526	Wastewater	Rate Case	\$1,627
<b>Ohio</b>	20-0532-WW-SIC	Water	Surcharge	\$2,171
<b>Total</b>				<b>\$10,145</b>



# State by State Comparison

As of December 31, 2019



State	Rate Base (\$000s)	Water Connections	Wastewater Connections	Total Customers
PA	3,428,271	443,152	38,208	481,360
OH	343,602	146,483	6,922	153,405
IL	357,344	65,851	16,330	82,181
TX	298,240	65,874	18,281	84,155
NJ	199,745	54,083	6,291	60,374
NC	229,294	82,201	20,005	102,206
IN	83,833	1,278	27,774	29,052
VA	78,022	26,110	7,861	33,971
<b>Total</b>	<b>5,018,351</b>	<b>885,032</b>	<b>141,672</b>	<b>1,026,704</b>



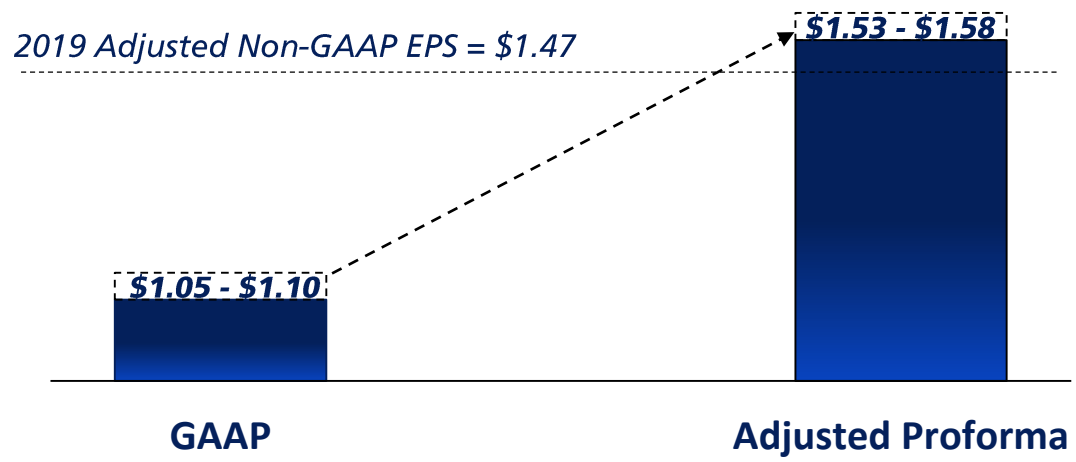
State	Rate Base (\$000s)	Gas Connections
PA	2,133,506	694,737
KY	119,510	38,967
WV	26,559	12,845
<b>Total</b>	<b>2,279,575</b>	<b>746,549</b>





# Guidance – Earnings Per Share

## 2020E Earnings Per Share



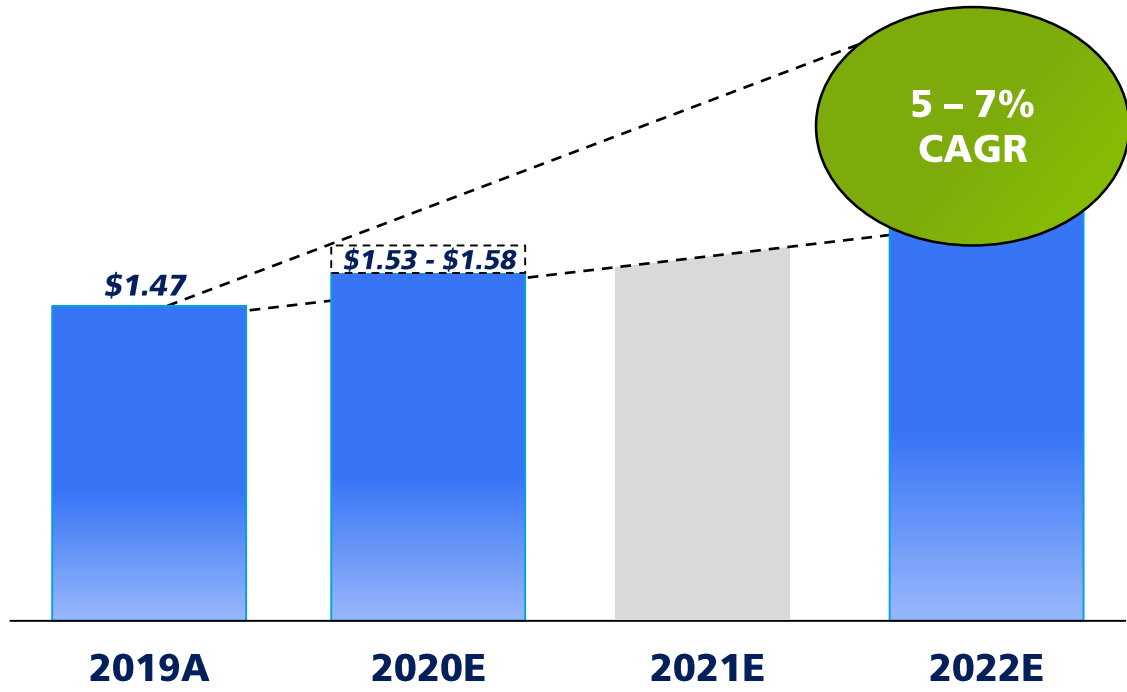
9.5 Months of Peoples Results

- March 2020 close of Peoples
- includes transaction expenses
- includes rate credits

12 Months of Peoples Results

- assumes 12 months of ownership
- assumes ~254M diluted shares
- excludes transaction expenses
- excludes rate credits

## 2019 – 2022E Earnings Per Share



**Repair Tax**

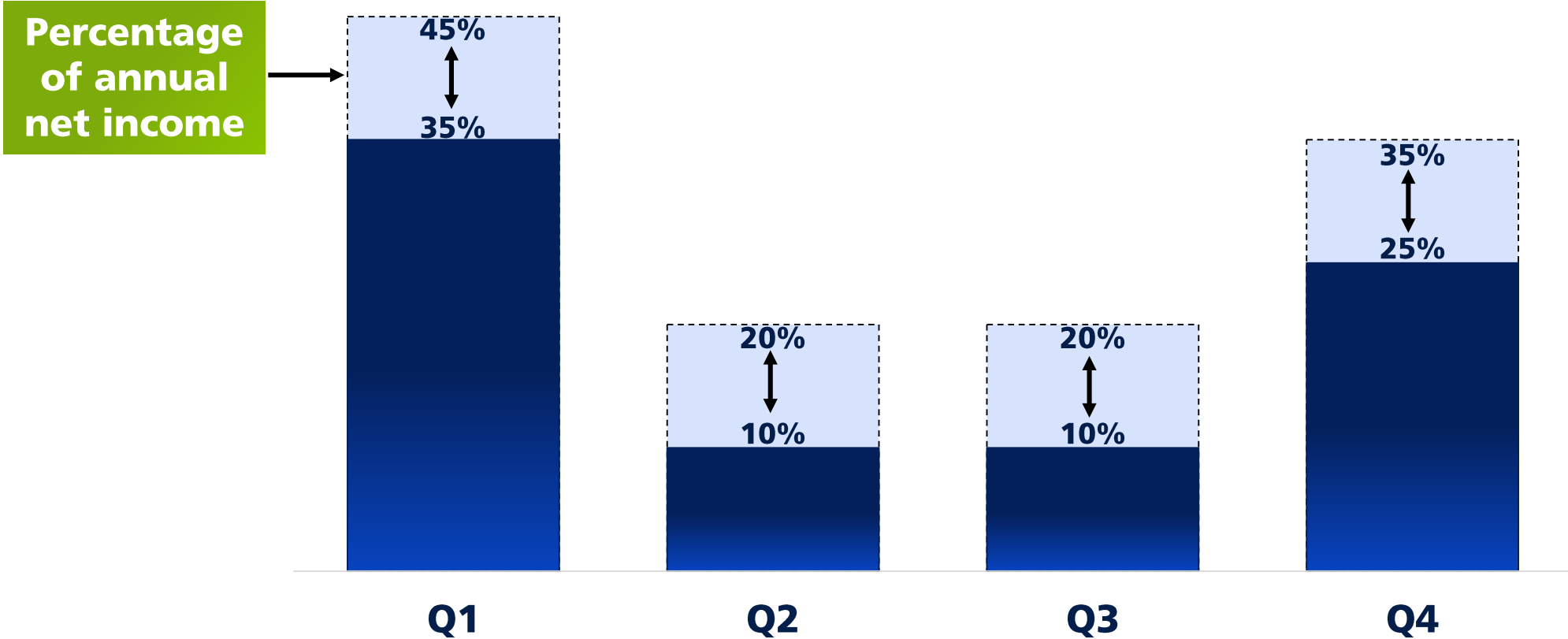
- Guidance includes current repair benefit in '20, '21, and '22
- Guidance excludes "catch-up" benefit

# Approximate Net Income by Quarter

Overview



*Based on proforma projections, we expect 65% to 75% of net income in a given year will be earned in the first and fourth quarters.*



# Diluted Shares Outstanding

(Millions)



*We're committed to providing clarity around share count in our EPS calculations.*

