

Essential Utilities Inc. Earnings Call

Third 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

Agenda

Chris Franklin – Company Update

Mike Huwar – Peoples Update

Chris Franklin – Third Quarter Highlights and ESG

Dan Schuller – Financial Results

Chris Franklin – Municipal Acquisition Program Update and Refined Guidance

Q&A



Company Update

Chris Franklin

Chairman, Chief Executive Officer, and President



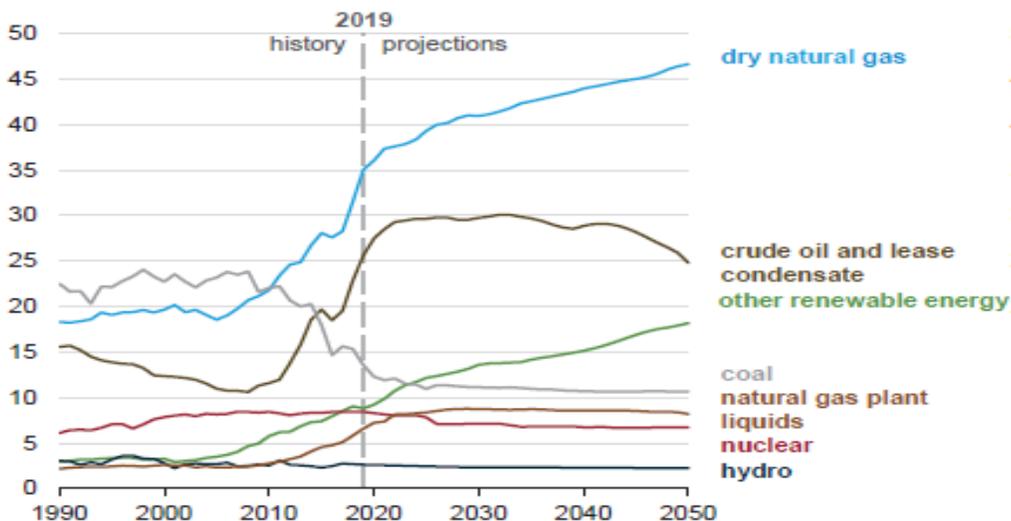
Natural Gas

A Solution to Emissions Reduction

To see the sources for these facts go to [AGA.org/Playbook](https://www.aga.org/playbook).

Projected Natural Gas Production

Energy production (AEO2020 Reference case)
quadrillion British thermal units

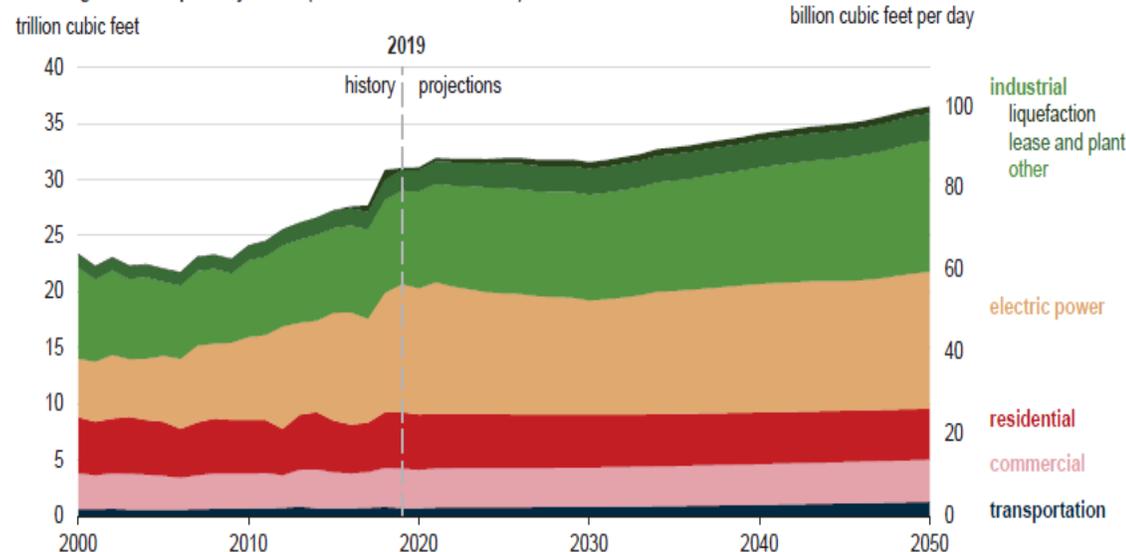


- Natural gas systems have added **12.4 million** residential customers over **20 years**, but consumption has remained stable due to energy efficiencies.
- Today, natural gas meets more than **30 percent** of the United States energy needs.

- Residential natural gas accounts for only **4%** of total U.S. greenhouse gas emissions.
- Emissions from natural gas distribution systems have **declined 73%** since 1990.
- Increased use of natural gas is the single largest factor in power sector emissions reductions reaching **25-year lows**.

Projected Natural Gas Consumption

Natural gas consumption by sector (AEO2020 Reference case)



Mike Huwar



Start Date: August 2020

President, Peoples

Background Information:

- 34-year career with Columbia Gas
- President and COO of Columbia's Pennsylvania and Maryland operations since 2017
- Responsible for overseeing the operations, maintenance and construction for both states as well as designing and executing legislative, regulatory, commercial and external strategies
- Led 800 company employees, managed approximately 1,500 contractor-based construction employees
- Bachelor's degree from the University of Pittsburgh

Reporting to: Rick Fox, Executive Vice President and COO for Essential

Peoples Gas

Observations



- Award winning safety program
- Leadership has 263 years of experience
- Capable of increased capital investments
- Strong existing culture
- Visible presence in the community
- Situated in region with low-cost gas supply
- 130+ year history of heating homes and businesses
- Serve an area of economic rebirth due to Marcellus development
- Natural gas will be a staple of energy in Pittsburgh for a long time.



The Truth About Natural Gas



Affordability

- **179 million** Americans use natural gas in their homes.
- Households that use natural gas for heating, cooking and clothes drying **save an average of \$879 per year** compared to homes using electricity for those applications.
- The affordability of natural gas has led to **\$121 billion in savings** for American businesses since 2009.
- Average real price commercial customers paid for natural gas in 2016 dropped to the **lowest level since the 1970s**.
- Compared to propane, fuel oil and electricity, natural gas is affordable and has **stable prices projected for decades**.



Local Abundant Supply

- **One new customer every minute**, natural gas utilities nationwide have added nearly **613,000 customers each year** while keeping consumption stable due to energy efficiency improvements.
- The U.S. produces more natural gas than any nation in the world, with enough supply to meet our energy needs for more than **110 years**.
- More homes and business in the United States use natural gas **today than ever before** and the numbers continue to increase.
- **3,374 Tcf** of gas resources in the U.S., with almost 40% in the Atlantic area.
- In less than 2 decades, the amount of natural gas being exported has increased by more than **22 times** and surpassed the amount being imported.



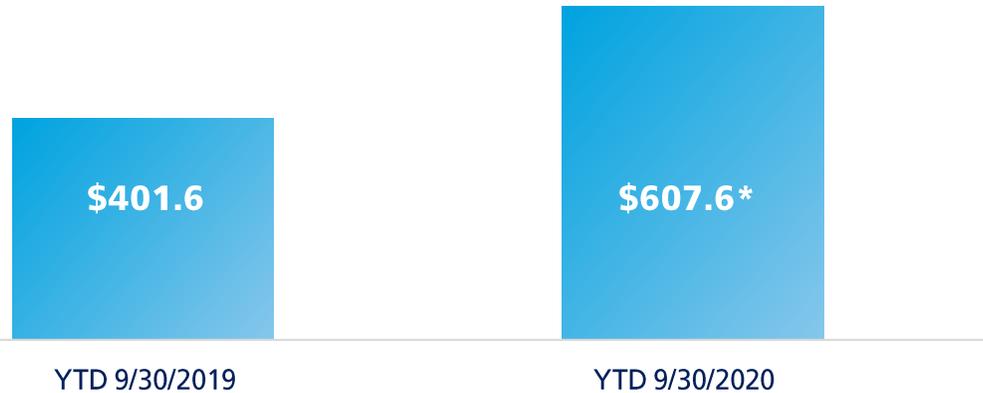
Safe and Reliable Services

- **2.6 million miles** of underground natural gas pipelines across America including 2.2 million miles of local utility distribution pipeline and 300,000 miles of transmission pipelines.
- Since 1990 – **56% decrease** in unprotected steel pipelines, **61% decrease** in cast iron pipeline and **215% increase** in modern plastic pipelines.
- **42 states** have rate mechanisms that foster accelerated replacement of pipelines.
- America's natural gas utilities invest **\$86.6 million every day** on enhancing the safety of distribution and transmission systems and add an average of **53 miles** of distribution pipeline every day to connect new customers and upgrade existing infrastructure.



Corporate Highlights

Infrastructure Investment (\$m)



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

Adjusted Income per Common Share (non-GAAP)



Acquisition Growth

- Closed Rockwell Utilities adding 721 water and 721 wastewater customers equivalents and \$5m of rate base
- Signed \$53m agreement with Lower Makefield for approximately 11,000 wastewater customers
- Signed municipal agreements totaling over \$363m and 212,000 customer equivalents

Published ESG Report

- Company-wide PFAS contamination standard set below EPA's health advisory level
- Renewables commitment in water business
- Advancing Women Company Award
- One of the strongest employee safety records in company's history

ESG Program

We have long been an ESG company committed to environmental stewardship, sustainable business practices, employee safety, diversity and inclusion, customer experience, and community engagement.

Accomplishments



Transparent & comprehensive ESG reporting



New full time ESG Manager (May 2020)

Ongoing Efforts



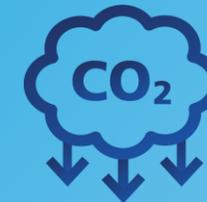
Publication of ESG Report (October 2020) Includes ESG Tear Sheet & TCFD Report.



Working toward greater supplier diversity. Target to be released in future.



Continuing excellence in water quality. Opening of state-of-the-art water testing lab. (early 2021)



Working on emissions reduction plan and targets. Targets will be released within 6 months.



Financial Results

Dan Schuller

Executive Vice President, Chief Financial Officer



Third Quarter Highlights

As of September 30, 2020

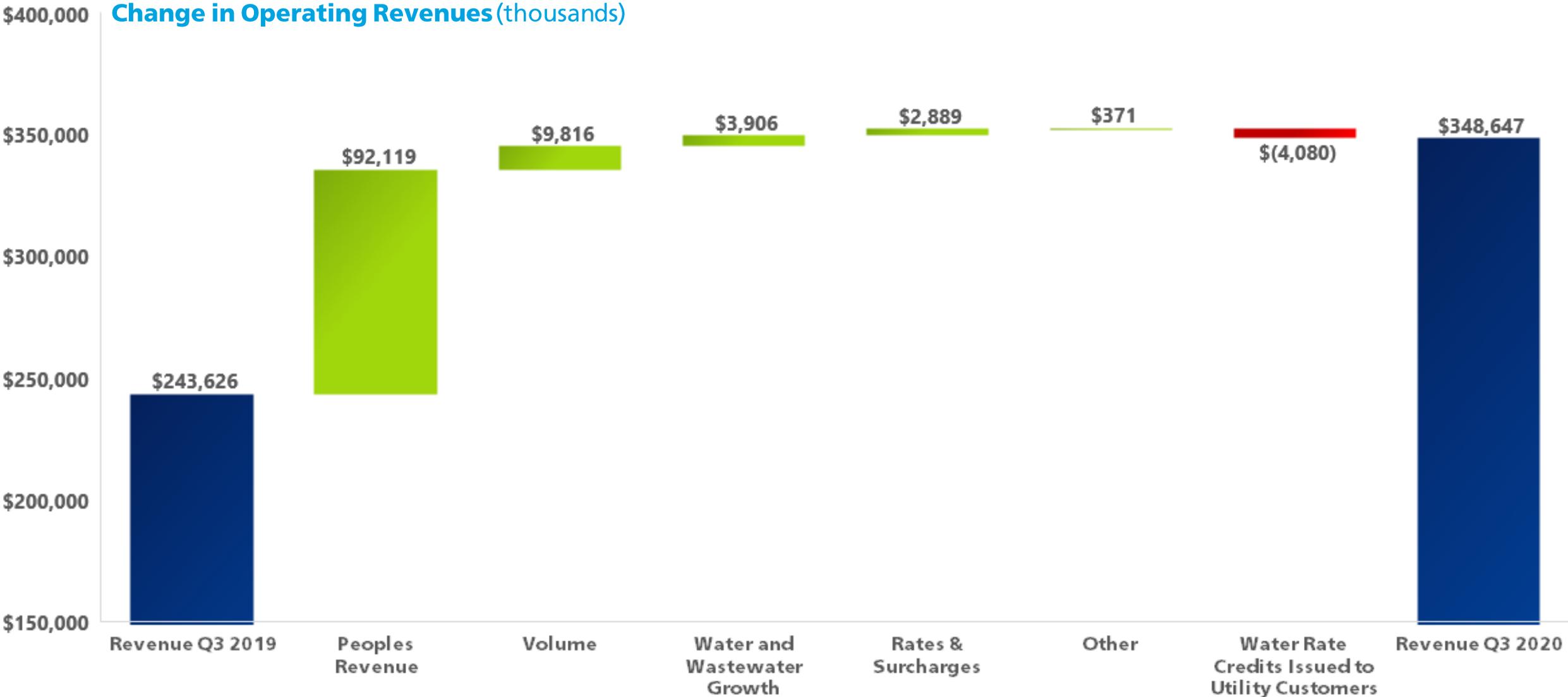
In millions except per share	Q3 2020		Q3 2019
Revenue (GAAP)	\$348.6	▲	\$243.6
Adjusted Revenue (non-GAAP)*	\$352.7	▲	\$243.6
Operations and Maintenance Expense	\$136.2	▲	\$82.0
Net Income (GAAP)	\$55.7	▼	\$88.5
Net Income per Share (GAAP)	\$0.22	▼	\$0.38
Adjusted Income (non-GAAP)	\$58.6	▼	\$85.6
Adjusted Income per Share (non-GAAP)	\$0.23	▼	\$0.48

*Adjusted Revenue excludes water rate credits issued to utility customers.



Operating Revenues

Q3 2020 vs. Q3 2019

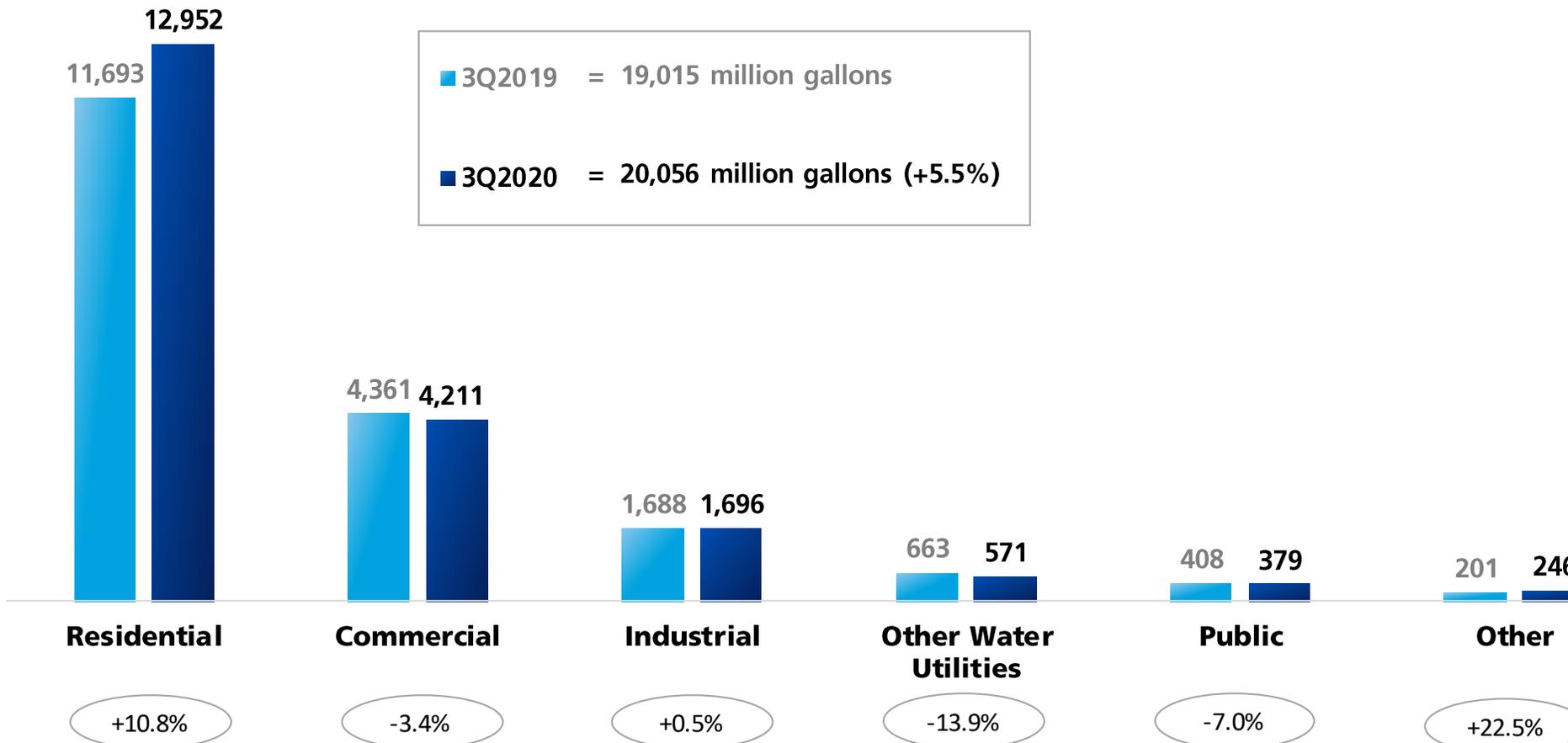




Usage by Customer Class – Regulated Water Segment

Q3 2020 vs Q3 2019 (Millions of Gallons)

Due to COVID-19 and favorable weather, we have seen residential usage increase by almost 11% in the third quarter when compared to the same time last year, while commercial usage has decreased by just 3%.



State	Moratorium Lift
Pennsylvania	11/9/2020
New Jersey	3/15/2021
Ohio	9/1/2020
Illinois	8/26/2020
Indiana	8/17/2020
Texas	6/13/2020
Virginia	10/5/2020 ¹
North Carolina	9/1/2020 ²
Kentucky	10/20/2020
West Virginia	7/1/2020

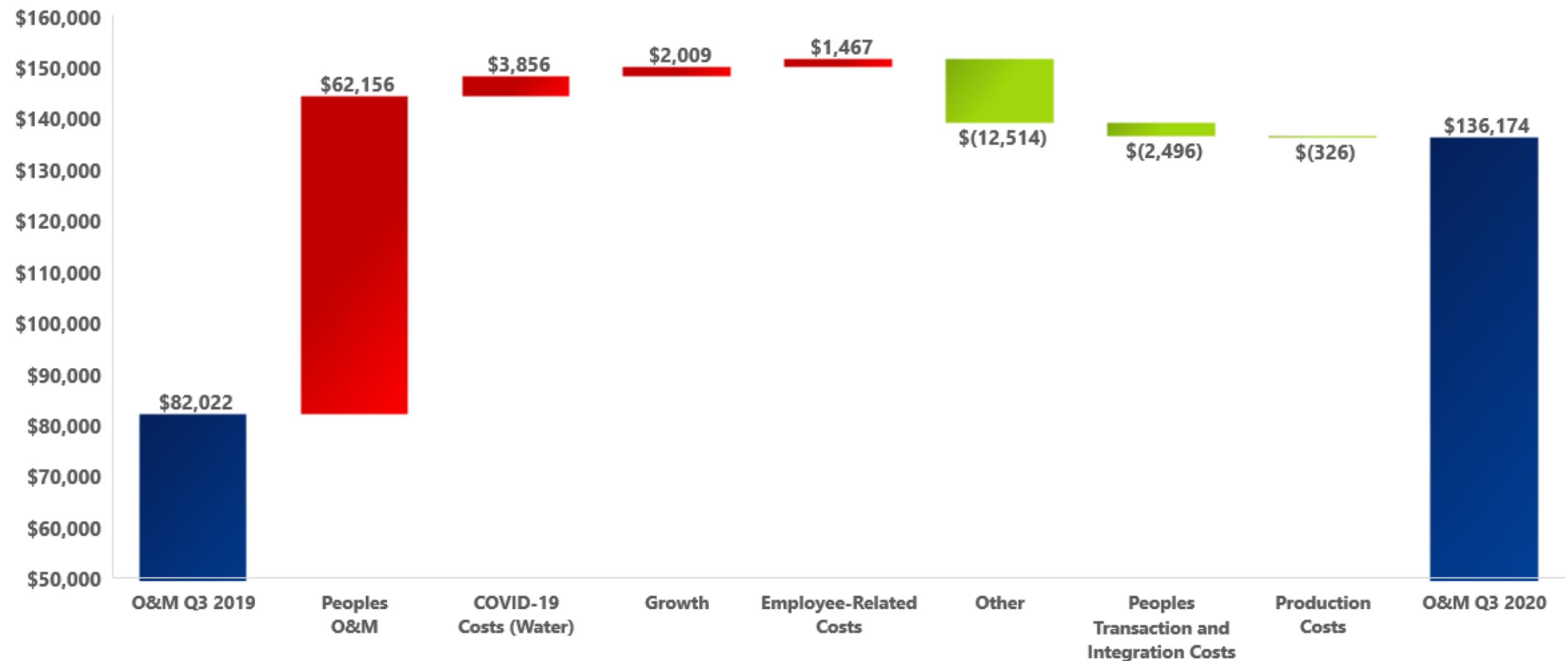
¹ Potential to be extended based on Governor's request
² Shut-offs commenced on 10/12/2020



Operations & Maintenance Expenses

Q3 2020 vs. Q3 2019

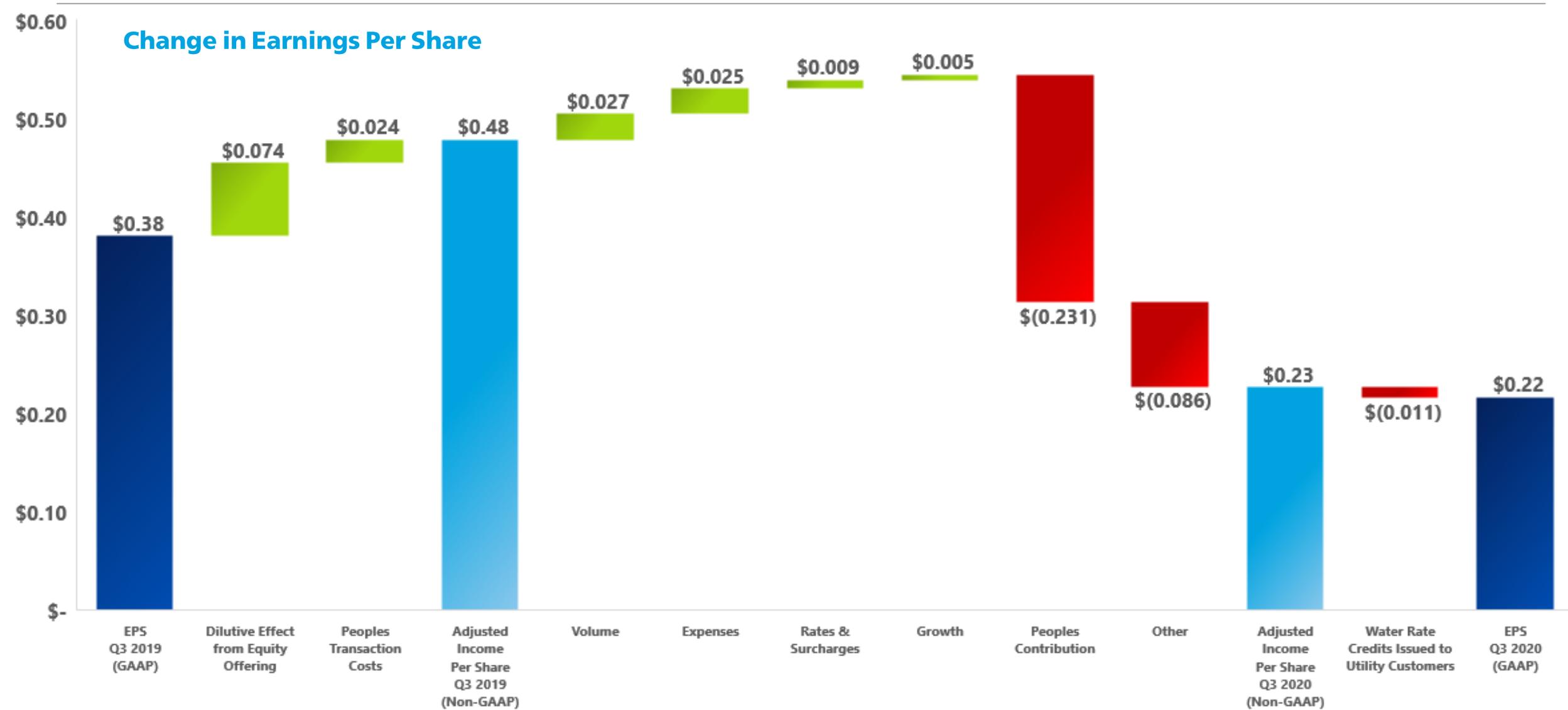
Change in Operations & Maintenance Expenses (thousands)





Earnings per Common Share

Q3 2020 vs. Q3 2019





Rate Activity

As of 11/3/2020

2020 Completed Rate Cases and Surcharges

- Water segment base rate cases or surcharges in IL, IN, NC, OH, VA, and PA with annualized revenue increase of \$21.0 million
- Gas segment surcharges in KY and PA with annualized revenue increase of \$1.0 million

As of 11/3/2020

Pending Rate Cases and Surcharges

- Water segment base rate cases or surcharges in NJ, VA, and IN with requested annualized revenue increase of \$2.9 million
- No pending gas segment base rate cases or surcharges

Note: Additional rate activity information provided in Appendix



Municipal Acquisition Program Update & Refined Guidance

Chris Franklin

Chairman, Chief Executive Officer, and President



2020 Water Segment Acquisitions

Since 2015 we have closed 59 total deals (includes investor-owned utilities and municipalities). These contributed approximately 54,000¹ new connections and approximately \$263M¹ in rate base.

Closed Municipal Acquisitions

2020 Acquisition	State	Type	Total Customers	Approx. Rate Base (\$000s)
Campbell	OH	W	3,100	\$7,535
East Norriton	PA	WW	4,966	\$20,750
Rockwell Utilities ²	IL	W / WW	721 / 721 ⁴	\$5,150
Total			9,508	\$33,435

The ~\$363M of rate base with signed APAs is expected to generate ~\$18M of incremental annual earnings potential⁵

Signed Agreements Pending Closing

Acquisition	State	Type	Total Customers	Approx. Purchase Price (\$000s)
New Garden	PA	WW	2,106	\$29,500
Commons Water ³	TX	W	980	\$4,000
DELCORA	PA	WW	198,000 ⁴	\$276,500
Lower Makefield	PA	WW	11,000	\$53,000
Total			212,086⁴	\$363,000

Note: Transactions above listed in chronological order of closing.

¹Rate base includes the Valley Creek Trunk Sewer. This is non-regulated but operates similar to a regulated asset; contributes an estimated \$22.9M in rate base equivalent.

²Rockwell Utilities is a privately owned utility in IL that will add approximately 256 water connections and 256 wastewater connections.

³Common Waters is a privately owned utility in TX.

⁴Essential's estimate of the number of equivalent retail customers.

⁵This is an illustrative earnings assumption based on assumed 50% debt / 50% equity capital structure and hypothetical 10% allowed return on equity and historical results.



Current Water Segment Municipal Transaction Opportunities

We are actively pursuing acquisition opportunities in most of our states, totaling approximately 360,000 customers. While we do not expect to close all of these opportunities, this illustrates the number of municipals we are evaluating and the increasing opportunity size. Of these potential pipeline opportunities, a majority are wastewater.

Size Range (Approx. # of Customers)	Total Customers (approx.)
>25,000	125,000
10,000 – 25,000	135,000
<10,000	100,000
Total	360,000



Refined Guidance

Earnings¹

- **Adjusted income at top end of the range 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 water²**
- **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**

¹ 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.

²Represents rate base growth excluding acquisitions.

Questions?

Thank You for Attending Essential's Third Quarter 2020 Conference Call

**Fourth Quarter and Full Year 2020 Earnings
Conference Call and Webcast**
Thursday, February 25, 2021

For more information contact:

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Appendix

GAAP to Non-GAAP Reconciliation

(In thousands, except per share amounts)



	Quarter Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income (GAAP financial measure)	\$ 55,732	\$ 88,489	\$ 182,142	\$ 160,316
Adjustments:				
Plus: Transaction-related rate credits granted to Pennsylvania utility customers	4,080	-	4,080	-
Plus: Transaction-related expenses for the Peoples transaction closed on March 16, 2020	-	3,367	25,573	65,453
Plus: Adjustments to provide full-year 2020 run rate of Peoples operating results, including additional net interest expense	-	-	108,132	-
Plus: Pre-acquisition interest expense for fund borrowed for acquisition of Peoples, net	-	2,000	-	3,318
Plus: Overlapping interest expense on refinanced debt	-	-	-	452
Less: Interest income earned on proceeds from April 2019 equity offerings	-	(9,071)	-	(16,479)
Income tax effect of non-GAAP adjustments	(1,179)	810	(32,982)	(10,926)
Adjusted income (Non-GAAP financial measure)	\$ 58,633	\$ 85,595	\$ 286,945	\$ 202,134
Net income per common share (GAAP financial measure):				
Basic	\$ 0.22	\$ 0.38	\$ 0.73	\$ 0.76
Diluted	\$ 0.22	\$ 0.38	\$ 0.71	\$ 0.76
Adjusted income per common share (non-GAAP financial measure):				
Diluted	\$ 0.23	\$ 0.48	\$ 1.12	\$ 1.13
Average common shares outstanding:				
Basic	254,280	232,053	248,212	209,971
Diluted	255,162	232,464	255,139	210,335
Average common shares outstanding:				
Shares used in calculating diluted net income per common share	255,162	232,464	255,139	210,335
Less: Adjustment for effects of April 2019 common share issuance	-	(37,370)	-	(22,039)
Less: Adjustment for effects of April 2019 tangible equity unit issuance	-	(16,270)	-	(9,595)
Shares used in calculating adjusted diluted income per common share (non-GAAP financial measure)	255,162	178,824	255,139	178,701



Year to Date Highlights

As of September 30, 2020

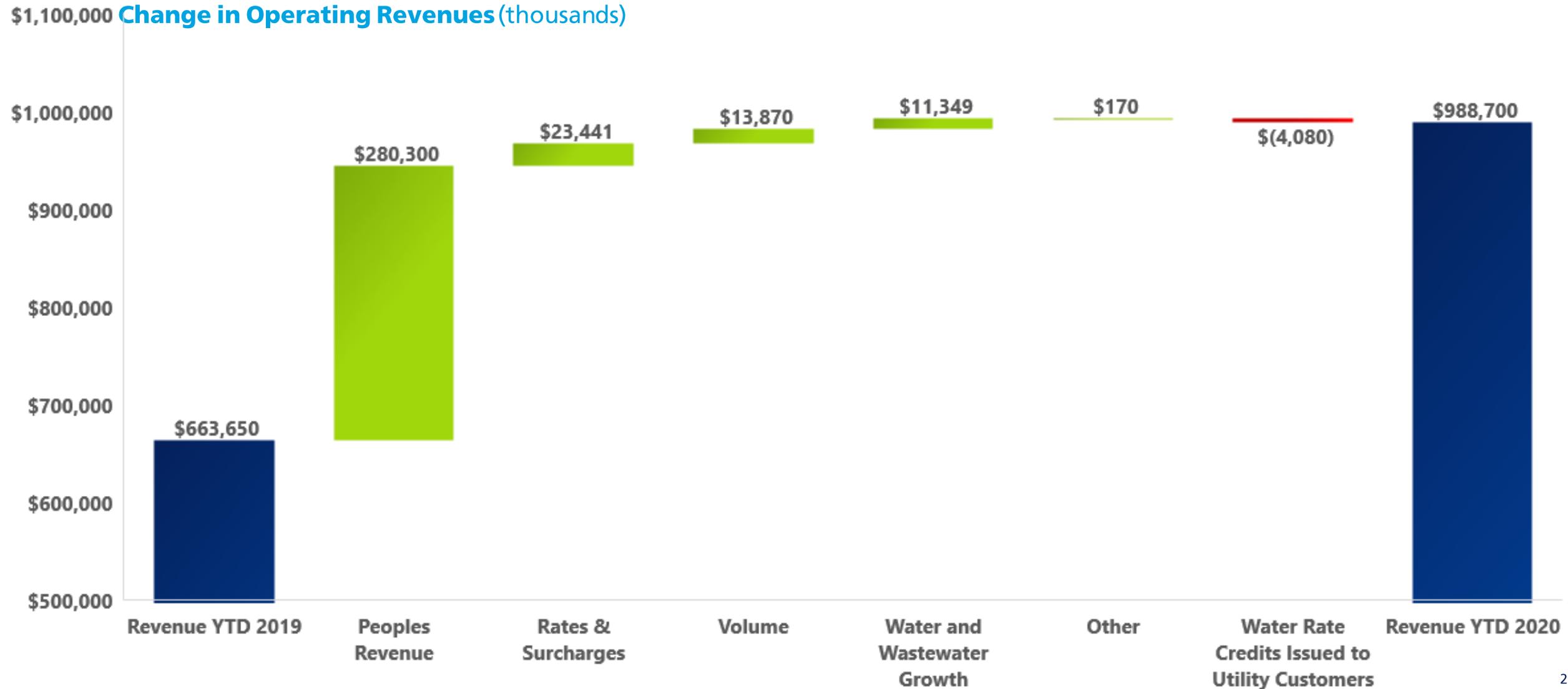
In millions except per share	YTD 2020		YTD 2019
Revenue (GAAP)	\$988.7	▲	\$663.7
Adjusted Revenue* (non-GAAP)	\$992.8	▲	\$663.7
Operations and Maintenance Expense	\$371.4	▲	\$247.8
Net Income (GAAP)	\$182.1	▲	\$160.3
Net Income per Share (GAAP)	\$0.71	▼	\$0.76
Adjusted Income (non-GAAP)	\$286.9	▲	\$202.1
Adjusted Income per Share (non-GAAP)	\$1.12	▼	\$1.13

* Adjusted Revenue excludes water rate credits issued to utility customers.



Operating Revenues

YTD September 30, 2020 vs. YTD September 30, 2019

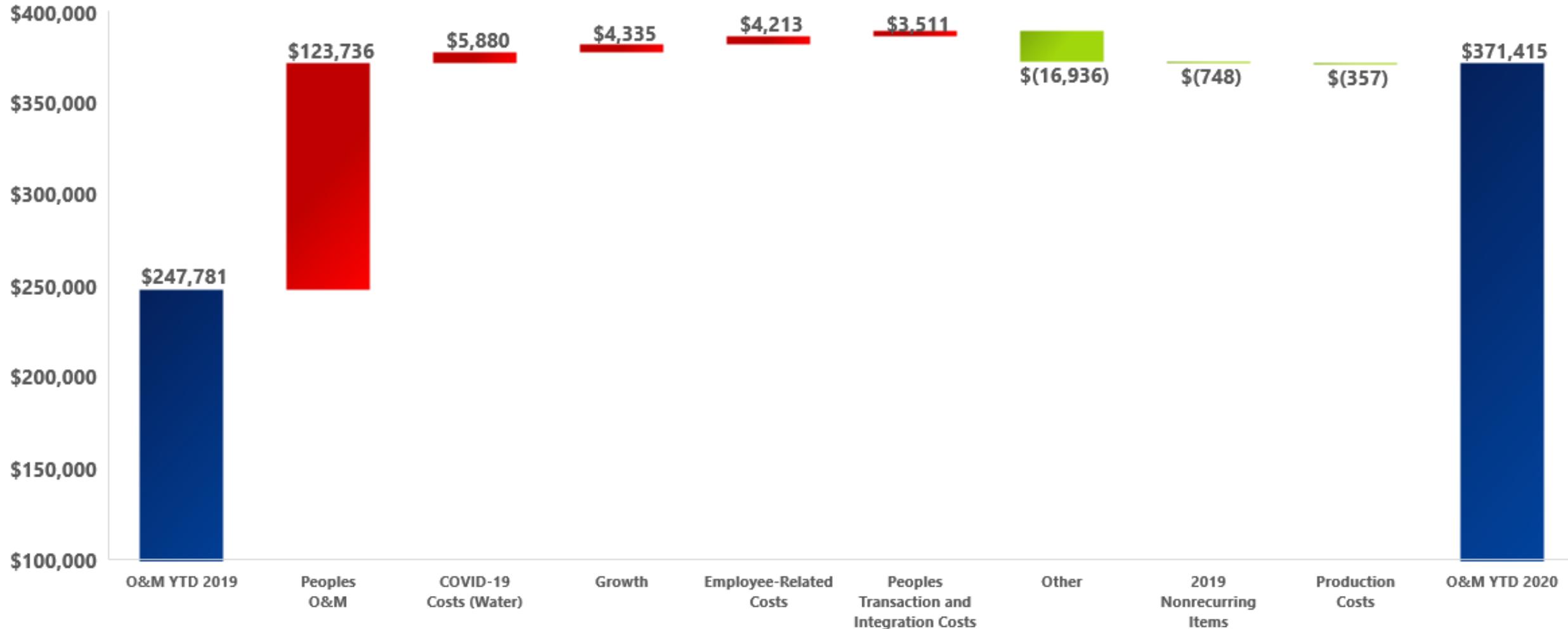


Operations & Maintenance Expenses

YTD September 30, 2020 vs. YTD September 30, 2019



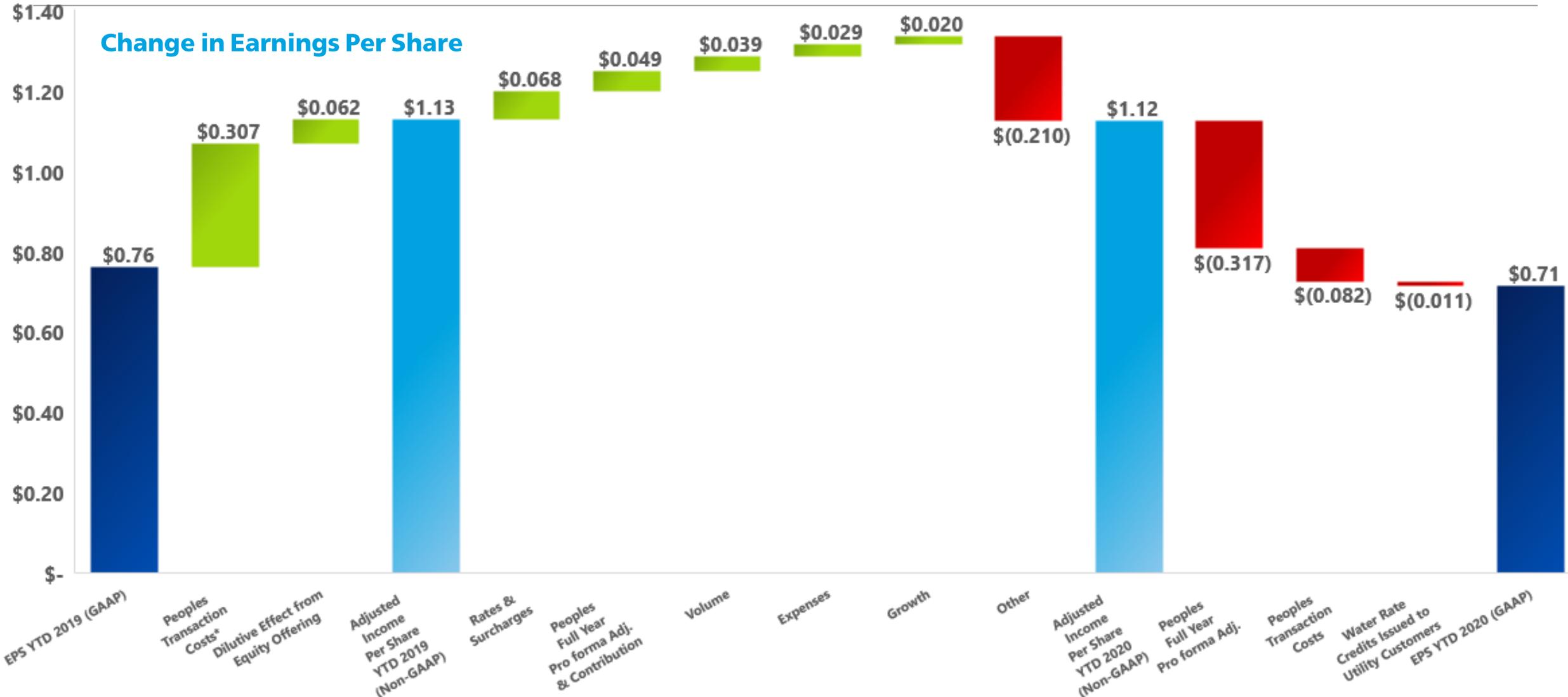
Change in Operations & Maintenance Expenses (thousands)





Earnings per Common Share

YTD September 30, 2020 vs. YTD September 30, 2019



*Includes \$0.105 per share impact from settlement of interest rate swaps.

2020 Rates and Surcharges Completed

As of November 3, 2020

State	Docket Number	Segment	Type	Awarded Annualized Revenue Increase (\$thousands)
Illinois	N/A	Water	Surcharge	\$2,902
	N/A	Wastewater	Surcharge	\$369
	20-0309	Water	Surcharge	\$840
	20-0309	Wastewater	Surcharge	\$125
Virginia	PUR-2019-00209	Water	Surcharge	\$132
	PUR-2019-00209	Wastewater	Surcharge	\$141
North Carolina	W-218, Sub 497A	Water	Surcharge	\$571
	W-218, Sub 497A	Wastewater	Surcharge	\$134
	W-218, Sub 526	Water	Rate Case	\$2,645
	W-218, Sub 526	Wastewater	Rate Case	\$781
Ohio	89-7028-WW-TRF	Water	Rate Case	\$995
	20-0532-WW-SIC	Water	Surcharge	\$2,168
Indiana	45314 U	Water	Rate Case	\$48
	45308 U	Wastewater	Rate Case	\$11
Pennsylvania	M-2020-3020466	Water	Surcharge	\$5,598
	M-2020-3020493	Wastewater	Surcharge	\$265
	M-2020-3022036	Water	Surcharge	\$3,212
	M-2020-3022080	Wastewater	Surcharge	\$27
Kentucky	2020-00059	Gas	Surcharge	\$632
Pennsylvania	N/A	Gas	Surcharge	\$345

Total **\$21,941**



Rates and Surcharges Pending

As of November 3, 2020

State	Docket Number	Segment	Type	Requested Annualized Revenue Increase (\$thousands)
New Jersey	WR20010056	Wastewater	Rate Case	\$1,090
Virginia	PUR-2020-00106	Water	Rate Case	\$1,476
	PUR-2020-00106	Wastewater	Rate Case	\$257
Indiana	45416-U	Water	Rate Case	\$33
Total				\$2,856



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
Total	5,018,351	885,032	141,672	1,026,704

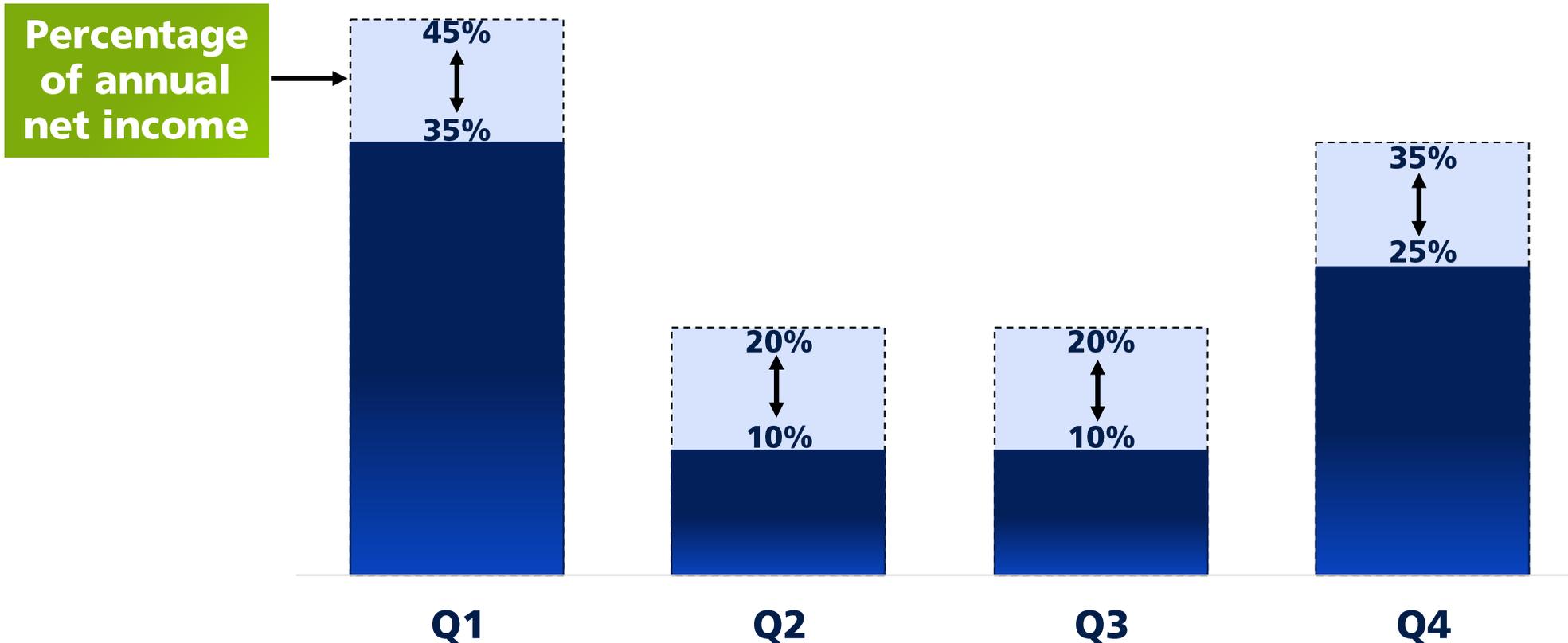


State	Rate Base (\$000s)	Gas Connections
PA	2,133,506	694,737
KY	119,510	38,967
WV	26,559	12,845
Total	2,279,575	746,549



Approximate Net Income by Quarter

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.





2019 Customer Count and Revenue

By Customer Class

<i>Water Segment</i>				
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%
Total	1,026,704	100.0%	\$ 889,692	100.0%

<i>Gas Segment</i>				
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%
Total	746,549	100.0%	\$ 908,653	100.0%

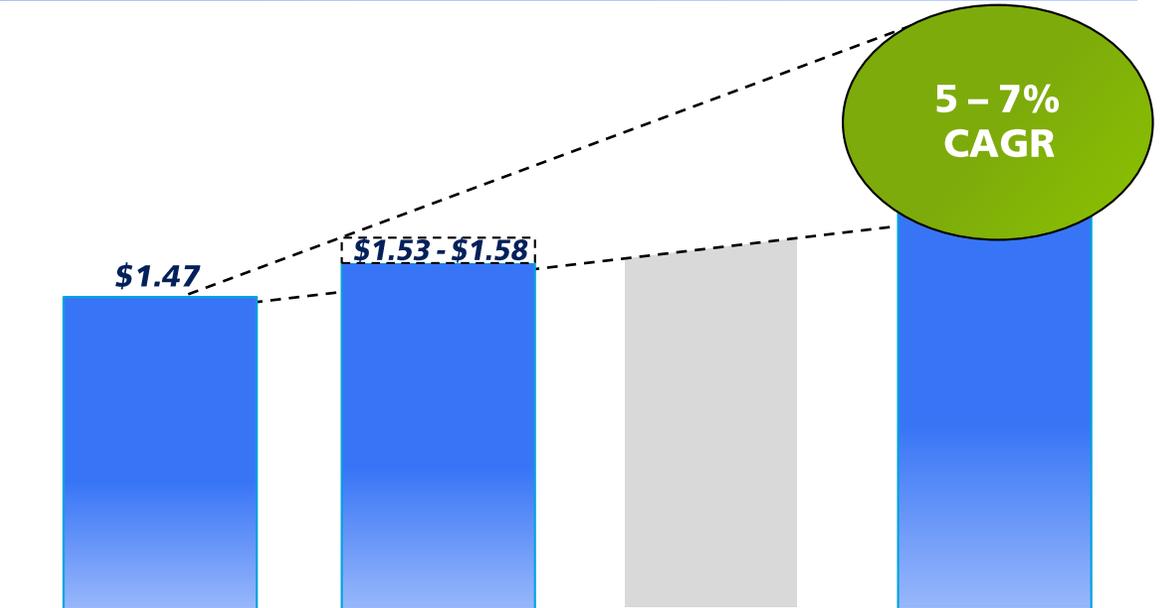
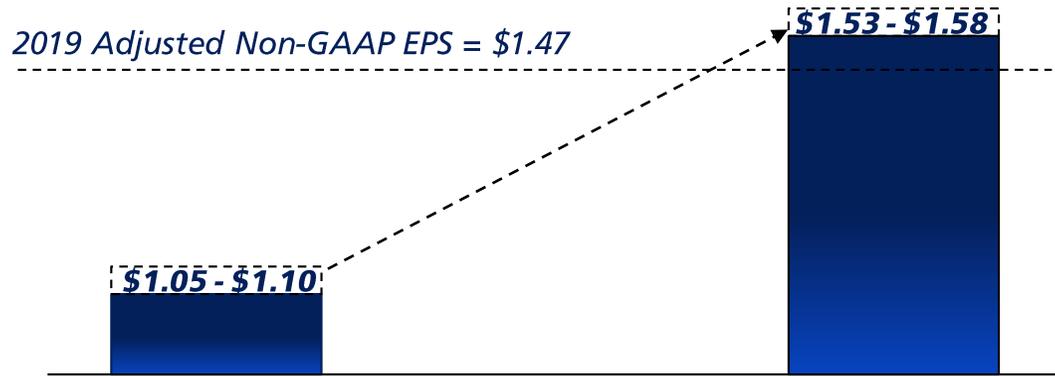


Guidance – Earnings Per Share

Refined 2020 annual adjusted earnings guidance to the top end of the \$1.53 to \$1.58 range

2020E Earnings Per Share

2019 – 2022E Earnings Per Share



GAAP

Adjusted Proforma

2019A

2020E

2021E

2022E

9.5 Months of Peoples Results

12 Months of Peoples Results

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

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

Repair Tax

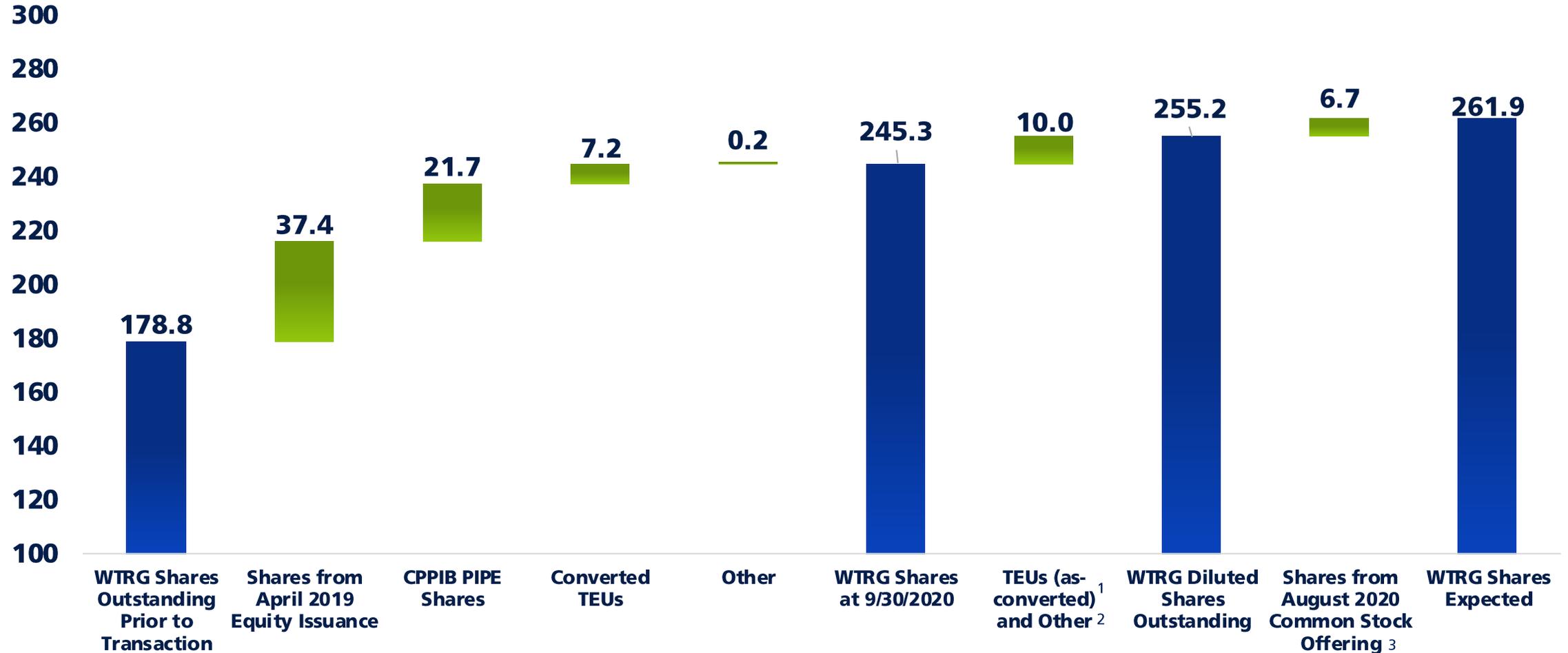
- Guidance includes current repair benefit in '20, '21, and '22
- Guidance excludes "catch-up" benefit

Diluted Shares Outstanding

(Millions)



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



¹Mandatory Settlement Date for TEUs is April 30, 2022

²Other includes stock-based compensation of 290,875 shares

³Settlement of the forward sale agreement is expected to occur no later than August 10, 2021



ESG Performance



7X water quality

- In 2019, we outperformed the national average on drinking water quality by seven times¹.
- We continue to reach new highs in wastewater system compliance.



PFAS in water

- Essential made an ambitious pledge to address the important issue of PFAS in drinking water.
- A company wide standard of 13 ppt, well below the EPA's non-enforceable health advisory level of 70 ppt, will allow Essential to address the contaminant uniformly across its footprint.



Safety & Diversity Awards

- In 2019, our gas business was awarded the Industry Leader Accident Prevention Award from the American Gas Association.
- 2019 also featured one of Aqua's strongest years of safety performance.
- Recognized by 2020 Women on Boards and received the Forum of Executive Women's Advancing Women Company Award.

¹ Measured as the percentage of community water systems with health-based (Tier 1 and Tier 2) violations