

Essential Utilities, Inc. and Subsidiaries
Reconciliation of GAAP to Non-GAAP Financial Measures
(In thousands, except per share amounts)
(Unaudited)

The Company is providing disclosure of the reconciliation of the non-GAAP financial measures to the most comparable GAAP financial measures. The Company believes that the non-GAAP financial measures "adjusted income" and "adjusted diluted income per common share" provide investors the ability to measure the Company's financial operating performance by adjustment, which is more indicative of the Company's ongoing performance and is more comparable to measures reported by other companies. The Company further believes that the presentation of these non-GAAP financial measures is useful to investors as a more meaningful way to compare the Company's operating performance against its historical financial results.

This reconciliation includes a presentation of "adjusted income" and "adjusted diluted income per common share." Both of these amounts are non-GAAP financial measures and have been adjusted to exclude the following:

- (1) Transaction-related expenses for the Company's pending Peoples acquisition, which consists of costs of \$1,005 recorded as operations and maintenance expenses for the three months ended December 31, 2019 and \$22,891 for the year ended December 31, 2019, primarily representing expenses associated with obtaining regulatory approvals, investment banking fees, legal expenses, and integration planning. Additionally, mark-to-market fair value adjustments of \$23,742 for the year ended December 31, 2019 associated with our interest rate swap agreements for debt issued related to this transaction are included in transaction-related expenses. The interest rate swap agreements were settled on April 24, 2019, which coincided with the debt financings to partially fund the Peoples acquisition. Further, expenses of \$19,433 for the year ended December 31, 2019 associated with the refinancing of existing debt that occurred in May 2019 are included in transaction-related expenses;
- (2) Pre-acquisition interest expense of \$4,684, net of interest income of \$2,041 for the three months ended December 31, 2019 and \$12,933, net of interest income of \$6,972 for the year ended December 31, 2019, commencing in the second quarter of 2019 for funds borrowed for our pending acquisition of Peoples since the acquisition for which the funds were borrowed for is not yet complete;
- (3) On April 26, 2019, the Company issued \$313,500 of notes so as to complete an early extinguishment of \$313,500 of existing debt on May 18, 2019. The Company incurred overlapping net interest expense during this 22-day period of \$452, based on interest expense incurred of \$858, net of interest income earned of \$406;
- (4) Interest income earned on the proceeds received from our April 2019 equity offerings of common shares and tangible equity units;
- (5) The income tax impact of the non-GAAP adjustments described above; and
- (6) The effect on average diluted shares outstanding of the shares issued in April 2019 for our common share and tangible equity unit issuances for our acquisition of Peoples since the acquisition for which the equity offerings were issued for is not yet complete.

These financial measures are measures of the Company's operating performance that do not comply with U.S. generally accepted accounting principles (GAAP), and are thus considered to be "non-GAAP financial measures" under applicable Securities and Exchange Commission regulations. These non-GAAP financial measures are derived from our consolidated financial information, and should only be used as a supplement to our GAAP disclosures, and should not be considered as a substitute for measures of financial performance prepared in accordance with GAAP.

The following reconciles our GAAP results to the non-GAAP information we disclose :

	Quarter Ended December 31,		Year Ended December 31,	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net income (loss) (GAAP financial measure)	\$ 64,227	\$ (3,657)	\$ 224,543	\$ 191,988
Adjustments:				
(1) Transaction-related expenses for the Peoples transaction	613	73,963	66,066	73,963
(2) Pre-acquisition interest expense for funds borrowed for acquisition of Peoples, net	2,643	-	5,961	-
(3) Overlapping net interest expense on refinanced debt	-	-	452	-
(4) Interest income earned on proceeds from April 2019 equity offerings	(6,898)	-	(23,377)	-
(5) Income tax effect of non-GAAP adjustments	777	(15,127)	(10,149)	(15,127)
Adjusted income (Non-GAAP financial measure)	<u>\$ 61,362</u>	<u>\$ 55,179</u>	<u>\$ 263,496</u>	<u>\$ 250,824</u>
Net income (loss) per common share (GAAP financial measure):				
Basic	\$ 0.28	\$ (0.02)	\$ 1.04	\$ 1.08
Diluted	\$ 0.28	\$ (0.02)	\$ 1.04	\$ 1.08
Adjusted income per common share (Non-GAAP financial measure):				
Diluted	\$ 0.34	\$ 0.31	\$ 1.47	\$ 1.41
Average common shares outstanding:				
Basic	<u>232,107</u>	<u>177,987</u>	<u>215,550</u>	<u>177,904</u>
Diluted	<u>232,581</u>	<u>178,431</u>	<u>215,931</u>	<u>178,399</u>
Average common shares outstanding:				
Shares used in calculating diluted net income per common share	232,581	178,431	215,931	178,399
(6) Adjustment for effects of April 2019 common share issuance	(37,370)	-	(25,903)	-
(6) Adjustment for effects of April 2019 tangible equity unit issuance	(16,271)	-	(11,278)	-
Shares used in calculating adjusted diluted income per common share (Non-GAAP financial measure)	<u>178,940</u>	<u>178,431</u>	<u>178,750</u>	<u>178,399</u>