

# Earnings Call

Third Quarter 2018



November 6, 2018

# Forward Looking Statement



**Brian Dingerdissen**

Vice President, Chief of Staff and Investor Relations

# 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' water 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 for the fiscal year ended December 31, 2017, 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.AquaAmerica.com](http://www.AquaAmerica.com)

# Introduction



**Chris Franklin**

Chairman, Chief Executive Officer and President

# Peoples Acquisition Highlights

Creating a Larger, More Diversified, Regulated Water and Natural Gas Utility

**Aqua America to acquire Peoples in an all-cash transaction that reflects an enterprise value of \$4.275B, which includes the assumption of approximately \$1.3B of debt**

- Aligns with growth strategy and core competencies of infrastructure investment, regulatory compliance and operational excellence
- Forms a >99% regulated water and gas distribution utility that will trade under a renamed holding company
- Increases rate base by nearly 50% and provides platform for organic growth and infrastructure investment
- Expected to provide earnings accretion in the first full year and over the long-term, with annual rate base growth of 7% in water and 8-10% in natural gas through 2021
- Maintains focus on water with ~70% of combined company net income and rate base in water and wastewater
- Expected to maintain strong investment grade credit rating

**Expected to close in mid-2019, pending regulatory approvals**

# Momentum Continues in Municipal Acquisitions

- Closed Peotone acquisition, reaching one million water customer milestone
- Closed 3 municipal deals for over 12,000 customers and \$100 million of rate base in 2018.
- 7 municipal deals under agreement for over 21,000 customers and approximately \$100 million of rate base which we expect to close in the next 12 months

# Sustaining Strong Investment in Infrastructure

- Invested \$343.2 million in pipes, plants and other infrastructure year to date
- We expect to invest approximately \$500 million this year
- On track to install approximately 170 miles of pipe this year





*Providing and protecting earth's  
most essential resource*

*October 2018*

## **Inaugural CSR Report**

Provides extensive information on Aqua's efforts toward increased sustainability

*October 2018*

## **CDP Survey**

The Carbon Disclosure Project (CDP) Survey was completed for the first time in 2018, and we are awaiting rating results.

# Summary of Financial Results



Dan Schuller

Executive Vice President, CFO

# 2018 Third Quarter Highlights

-  Favorable Change
-  Unfavorable Change

In millions except per share	Q3 2018		Q3 2017	Variance
Revenue	\$226.1		\$215.0	5.2%
Operations and Maintenance Expense	\$68.6		\$66.7	2.8%
Net Income	\$78.2		\$76.2	2.6%
Net Income per Share	\$0.44		\$0.43	2.3%

# Year to Date Highlights

As of Sept 30, 2018

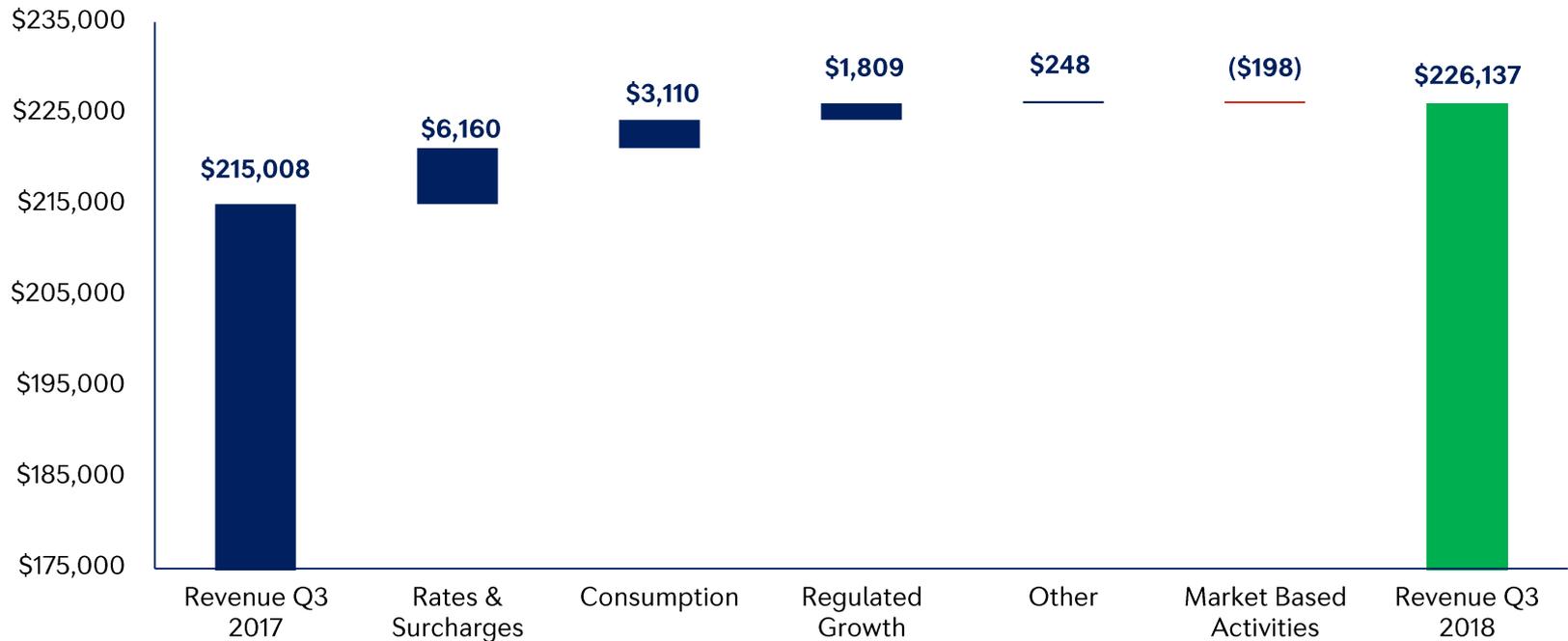
-  Favorable Change
-  Unfavorable Change

In millions except per share	YTD 2018		YTD 2017	Variance
Revenue	\$632.3		\$606.2	4.3%
Operations and Maintenance Expense	\$216.1		\$204.2	5.8%
Net Income	\$195.6		\$186.3	5.0%
Net Income per Share	\$1.10		\$1.05	4.8%

# Operating Revenues

Q3 2018 vs. Q3 2017

## Change in Operating Revenues (thousands)



# Operations & Maintenance Expenses

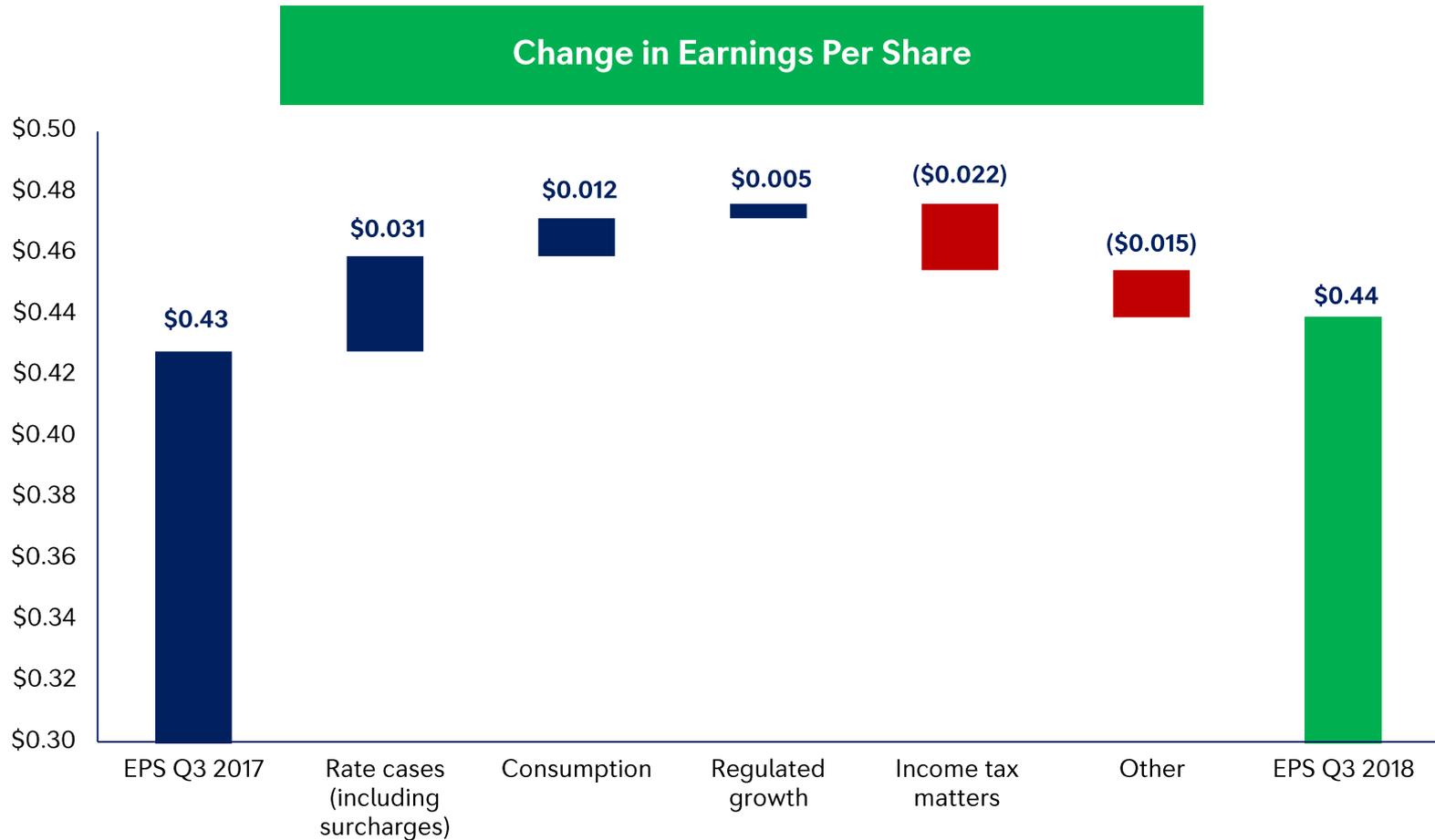
Q3 2018 vs. Q3 2017

## Change in Operations & Maintenance Expenses (thousands)



# Earnings per Common Share

Q3 2018 vs. Q3 2017



# Rate Activity

As of November 5, 2018

2018

## Completed Rate Cases and Surcharges

- Base rate cases or surcharges completed in IL, IN, NJ, NC, OH, PA, TX and VA.
- **\$20 million** in additional annualized revenue

2018

## Pending Rate Cases and Surcharges

- Base rate cases or surcharges in IN, NC, OH and PA with requested annualized revenue increase of **\$78.7 million**

Additional rate activity information provided in Appendix

# Growth



## Matt Rhodes

Executive Vice President, Strategy & Corporate Development

# 2018 Closed Municipal Acquisitions

As of Nov. 5, 2018

Acquisitions	State	Type	Total Customers	Approximate Rate Base (\$thousands)
Manteno	IL	WW	3,890	\$25,000
Limerick	PA	WW	5,497	\$64,373
Peotone	IL	W / WW	2,987	\$12,300
<b>Total</b>			<b>12,374</b>	<b>\$101,673</b>

2.0% total customer growth YTD 2018, from acquisitions (over 12,000 customers) and organic growth (~7,000 customers).

The transactions above added over \$100mm of new rate base.

Listed in chronological order of closing.

Limerick was previously referred to as “System A”, Manteno as “System F” and Peotone as “System E.”

# Signed Municipal Agreements

As of Nov. 5, 2018

Acquisition	State	Type	Approx. # of Customers	Approx. Purchase Price (\$000s)
New Garden	PA	WW	2,106	\$29,500
System D	PA	W	600	\$3,600
East Bradford	PA	WW	1,248	\$5,000
System H	IL	WW	540	\$2,300
Cheltenham	PA	WW	10,500	\$50,250
System I	IL	W/WW	752	\$3,550
East Norriton	PA	WW	4,952	\$21,000
<b>Total</b>			<b>20,698</b>	<b>\$115,200</b>

Given FMV legislation in most of Aqua's states, rate base added from municipal acquisitions closely approximates purchase price.

In addition to the signed agreements above, there is a strong pipeline of other opportunities to drive future rate base and customer growth (over 250,000 new potential customers).

Listed in chronological order of signing.

New Garden was previously referred to as "System B" and East Bradford as "System G". Tobyhanna known as "System C" closed in 2017.

# Peoples Transaction Update



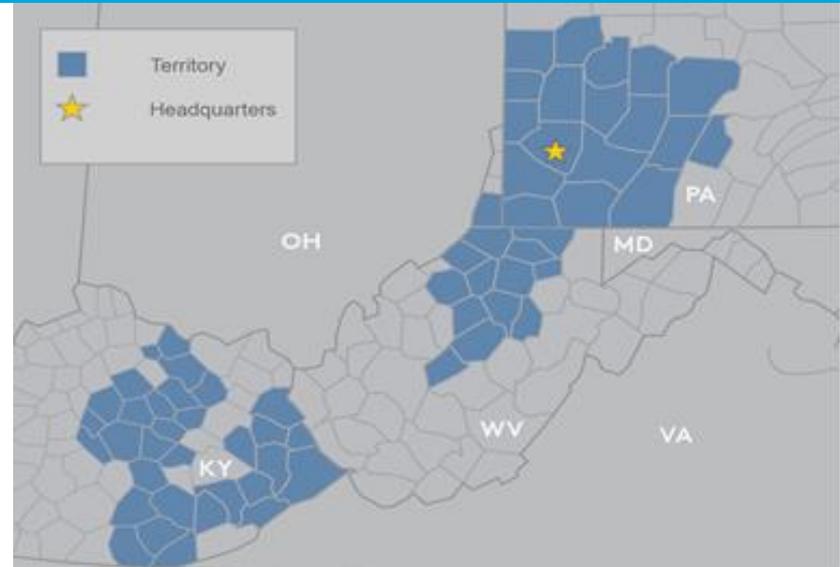
**Matt Rhodes**

Executive Vice President, Strategy & Corporate Development

# Peoples: A Leading Natural Gas Utility

*A regulated natural gas distributor with over 740,000 total customers.*

- Provides natural gas distribution services to over 740,000 total customers in three states
- Headquartered in Pittsburgh, PA
- The company was created through the acquisition of Peoples in Feb. '10, TW Phillips in May '11, Equitable in Dec. '13<sup>1</sup> and Delta Gas in Dec. '17
- Employees: 1,500+
- Approximately 15,500 miles of distribution pipeline, 1,500 miles of gathering pipeline and 250 miles of intrastate transmission pipeline



## Financial Overview

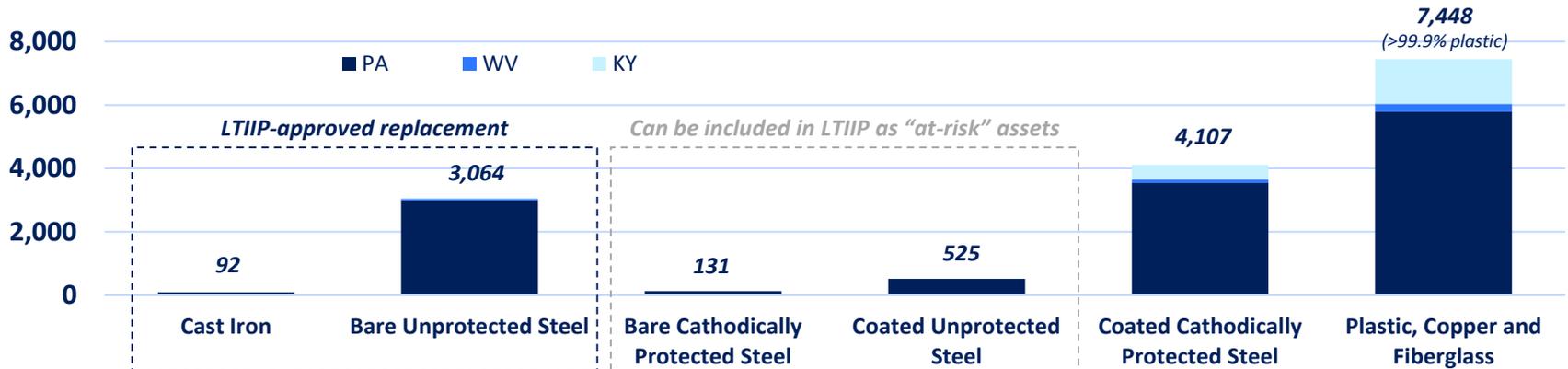
- LTIP plan for more than \$200M annually
- 3,100 miles of bare steel and cast-iron pipe to be replaced in coming years at a rate of approximately 150 miles per year
- 98% of EBITDA from regulated gas distribution
- Projected Ann. Rate Base Growth: ~8-10% ('19-'21)
- Last PA rate case filed in 2011 (Peoples Natural Gas)

Figures in \$M	2019E
EBITDA <sup>2</sup>	\$289
Capex	\$297
Rate Base	\$2,200
Assets	\$3,400

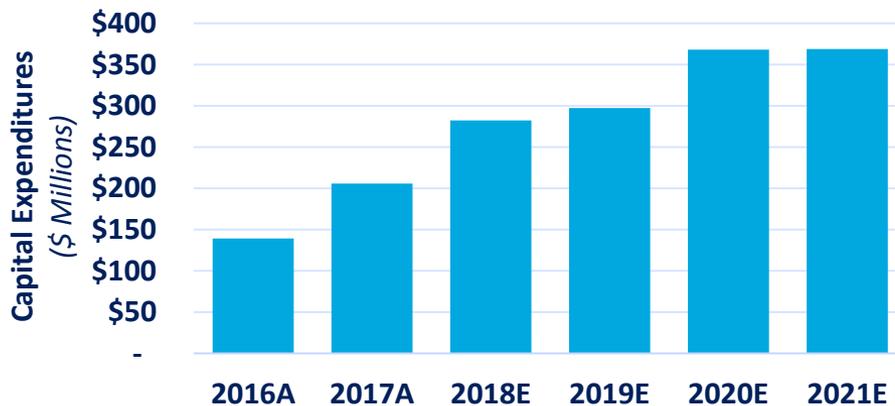
State	Approximate # of Customers
Pennsylvania	691,000
Kentucky	37,150
West Virginia	14,860
<b>Total</b>	<b>743,010</b>

# Peoples' Pipeline Replacement Program

## Peoples' Distribution System Material (Miles)



## Capital Expenditures at Peoples (2016A – 2021E)



- Peoples has identified over 3,000 miles of bare steel and cast iron pipe to be replaced under its Long-term Infrastructure Improvement Plan ("LTIP") by 2034 in its PA service territory alone
  - At approximately 150 miles per year of pipe replacement, this implies ~20 years of increased capital spending
  - DSIC allows for accelerated recovery of capital between rate cases

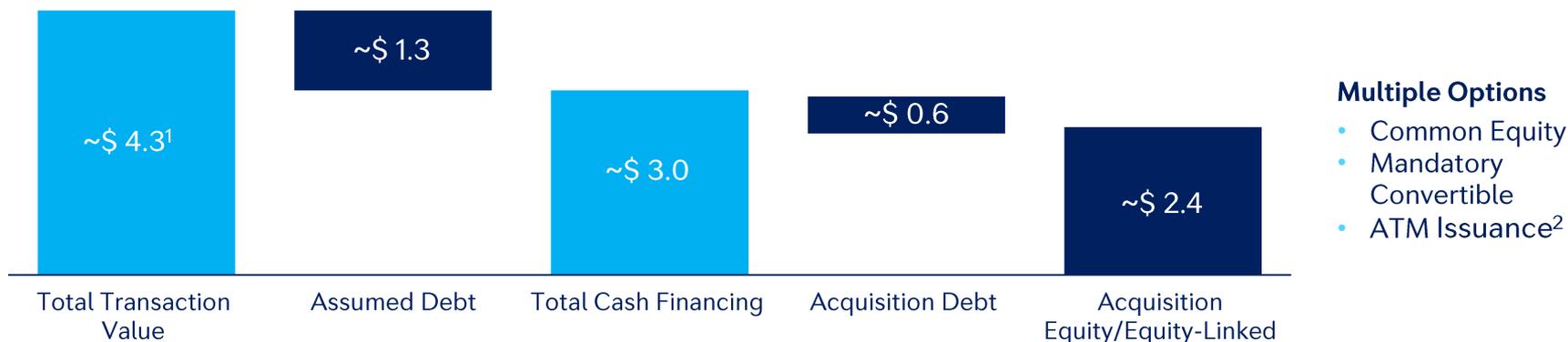
*There is ample opportunity at Peoples to deploy capital to improve aging infrastructure and earn timely recovery under the LTIP*

# Overview of Financing Plan

## Acquisition Financing Strategy

- Fully committed acquisition bridge facility
- Current standalone Aqua FFO / Debt of 14% to 15% will remain strong for a fully regulated company following the acquisition at 12% to 13%
- Permanent financing plan targets a strong balance sheet and strong investment grade credit ratings
  - **Equity:** Anticipate issuance of ~\$2.2-2.5B of common equity and equity-linked securities
    - ✓ 30% to 40% in equity-linked securities and the remainder in the form of common equity
  - **Debt:** Anticipate ~\$0.5-0.8B of incremental Aqua America debt issued to fund transaction
    - ✓ We expect to issue index-eligible, public debt in a mixture of 10-year and 30-year tenors
    - ✓ Executed interest rate hedge to mitigate the potential economic impact of higher Treasury rates

## Acquisition Funding Sources



# Key Milestones

- ✓ Public Announcement
- ✓ Bridge Financing Secured
- Regulatory Filings Completed
- Equity Offering
- Debt Financing
- State PUC Approvals

Expected Closing Mid-2019

# Guidance



**Chris Franklin**

Chairman, Chief Executive Officer and President

# 2018 Guidance

## Earnings

- Earnings per diluted common share of \$1.40 to \$1.42, excluding transaction expenses, narrowing guidance towards the top end of previous range of \$1.37-\$1.42

## Capex

- Infrastructure investment of approximately \$500 million in 2018
- Infrastructure investment of approximately \$1.4 billion planned through 2020 in existing operations
- Rate base growth of approximately 7%

## Rate Activity

- Aqua Pennsylvania filed a rate case in August 2018 with resolution expected in 2019

## Customer Growth

- Total customer growth of 2 to 3%

We recently announced that we do not plan to provide earnings guidance for 2019 due to the ongoing Pennsylvania rate case. However, we will continue to provide guidance on capital and operating expenses, rate base, and customer growth. At the conclusion of the rate case, the company will resume providing earnings guidance on the normal cycle.

# Summary

- ✓ Municipal acquisition program on track
- ✓ Capital investment on pace for record year
- ✓ Inaugural CSR report released
- ✓ First PA rate case in seven years filed
- ✓ Peoples acquisition approval and integration processes are underway
- ✓ Updated 2018 EPS guidance to \$1.40 - \$1.42 from \$1.37 - \$1.42

# Q&A Session

Aqua America



# Thank You for Attending Aqua's Third Quarter 2018 Conference Call

**Fourth Quarter and Full Year 2018 Earnings  
Conference Call and Webcast**  
Tuesday, February 26, 2019

**For more information contact:**

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# Appendix

Aqua America



# 2018 Closed Acquisitions

As of November 5, 2018

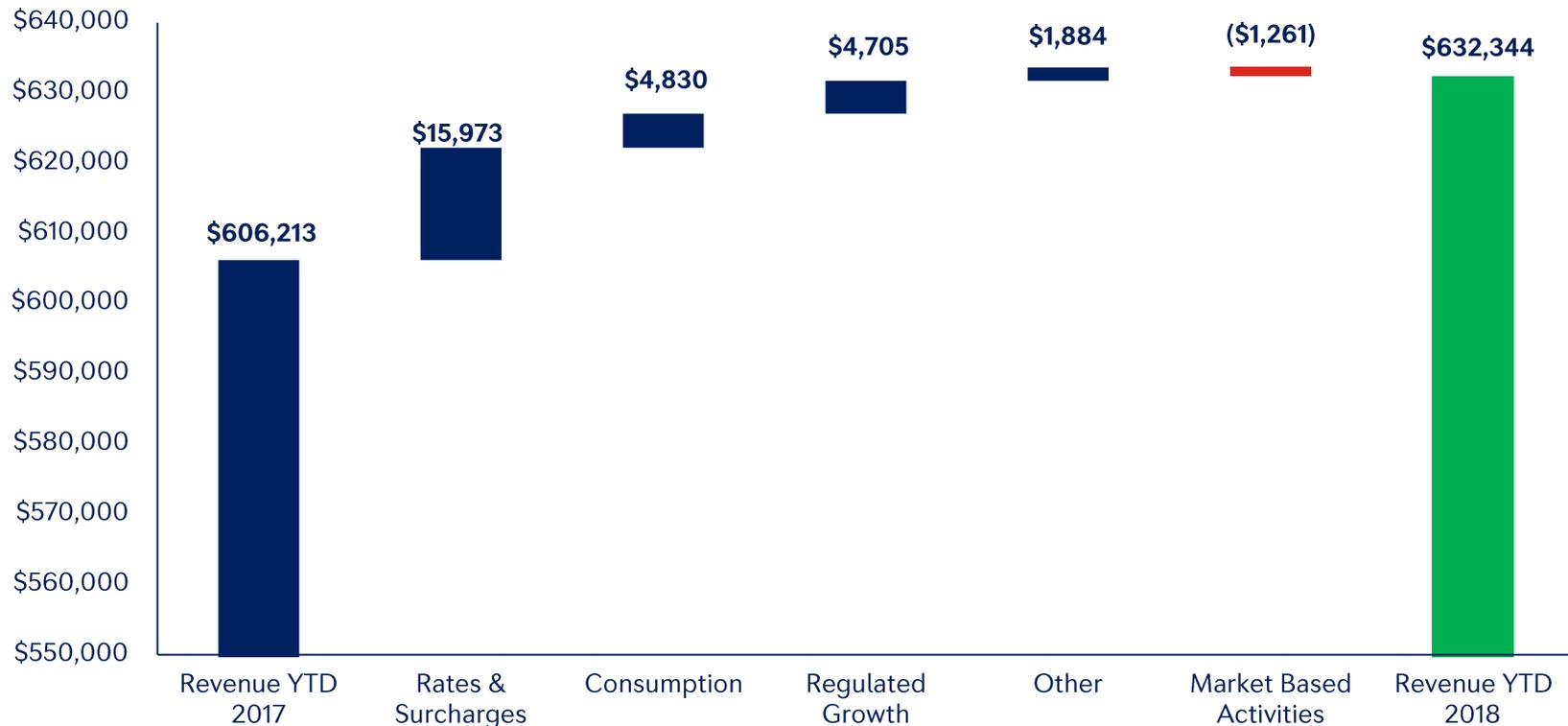
Acquisition	State	Transaction	Type	Number of Customers	Approximate Rate Base (\$000s)
Sun Valley	PA	Private	W	81	\$5*
Firestone Trace	OH	Private	W	229	\$124*
Firestone Trace	OH	Private	WW	138	\$61*
Limerick	PA	Municipal	WW	5,497	\$64,373
Manteno	IL	Municipal	WW	3,890	25,000
Peotone	IL	Municipal	W/WW	2,987	12,300
				<b>12,822</b>	<b>101,863</b>

\*Reflects purchase price for private transactions where rate base calculation is still pending.

# Operating Revenues

YTD Sept 30, 2018 vs. YTD Sept. 30, 2017

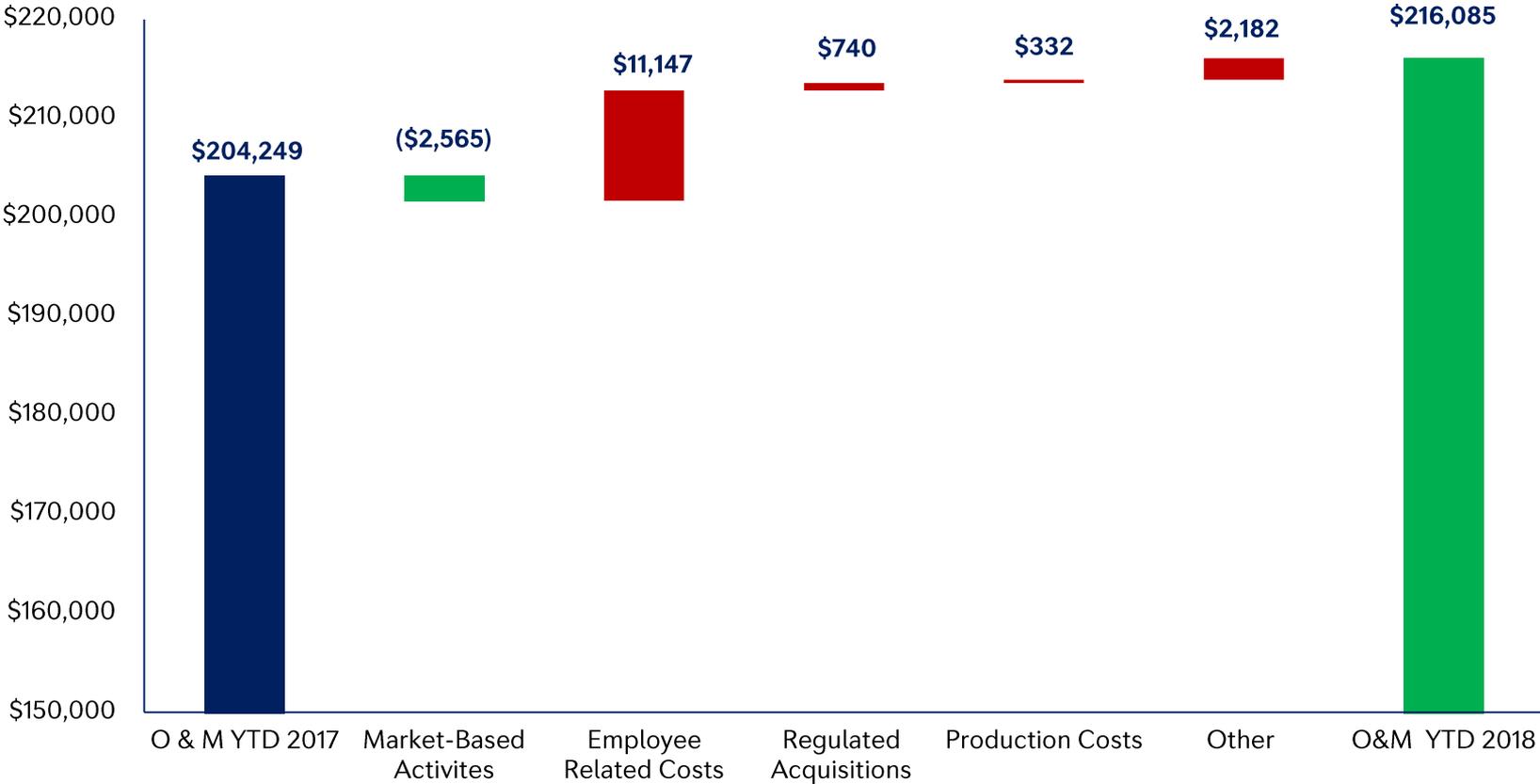
## Change in Operating Revenues (thousands)



# Operations & Maintenance Expenses

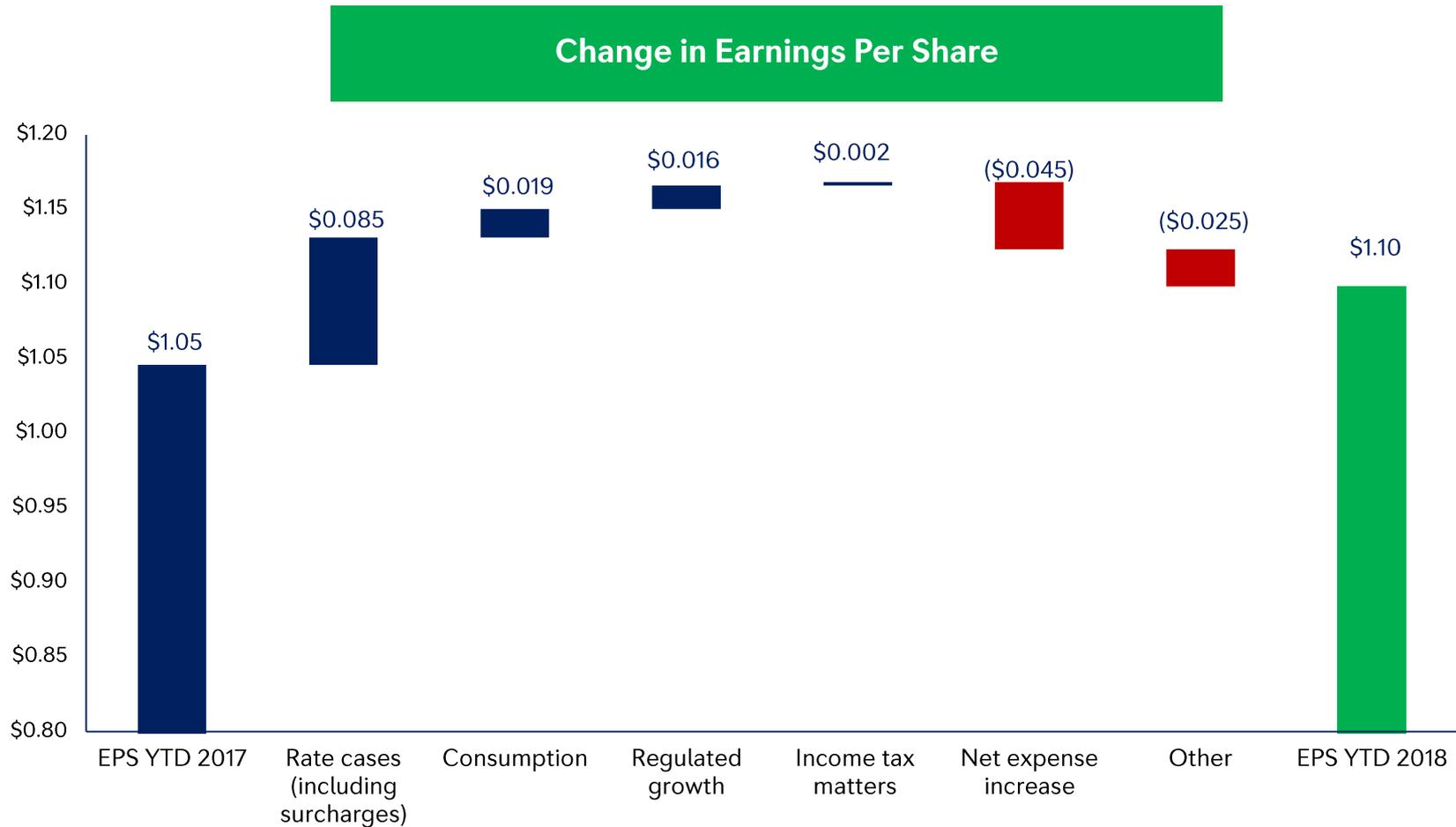
YTD Sept 30, 2018 vs. YTD Sept. 30, 2017

Change in Operations & Maintenance Expenses (thousands)



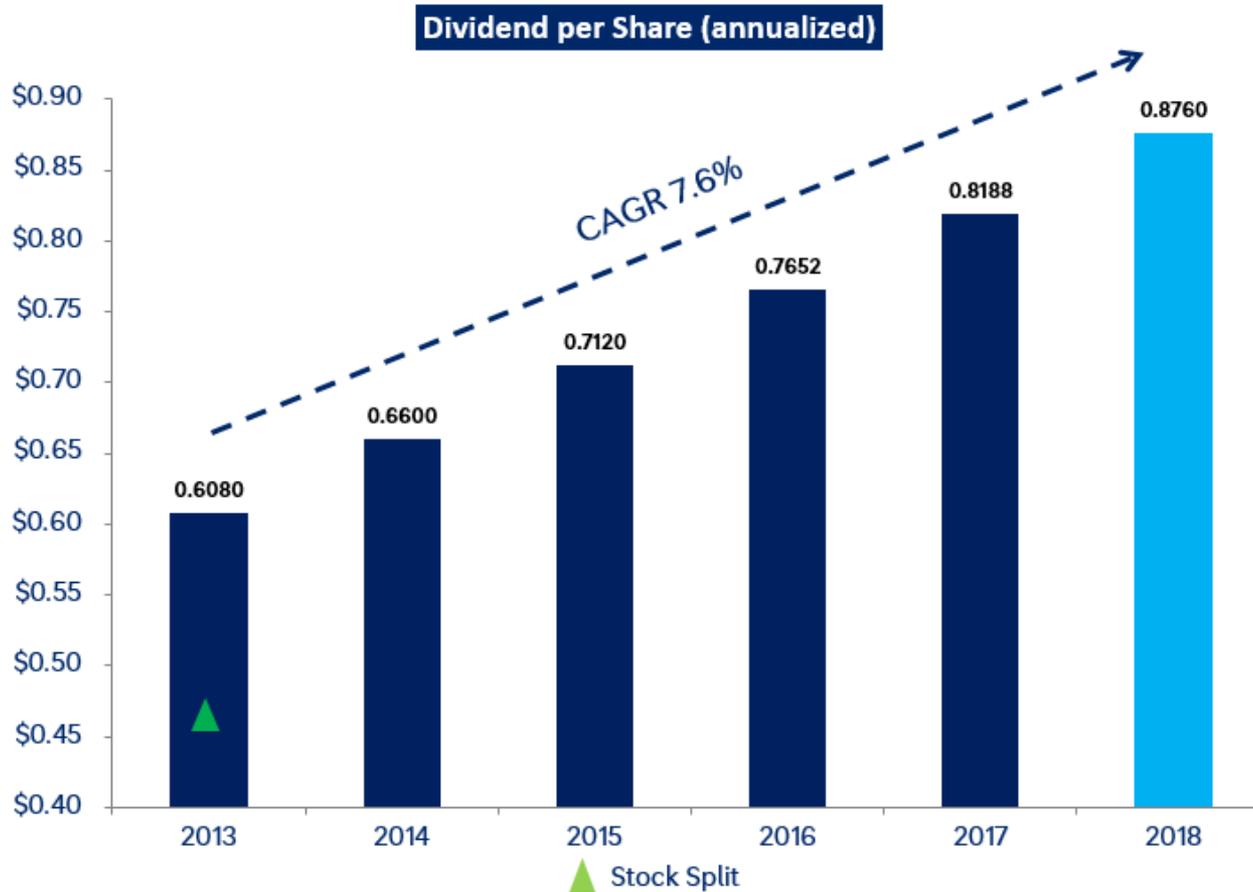
# Earnings per Common Share

YTD Sept 30, 2018 vs. YTD Sept. 30, 2017



# Dividend Increase History

7.0% Increase to Annualized Dividend Rate Effective 9/1/2018



# State by State Comparison

As of October 1, 2018

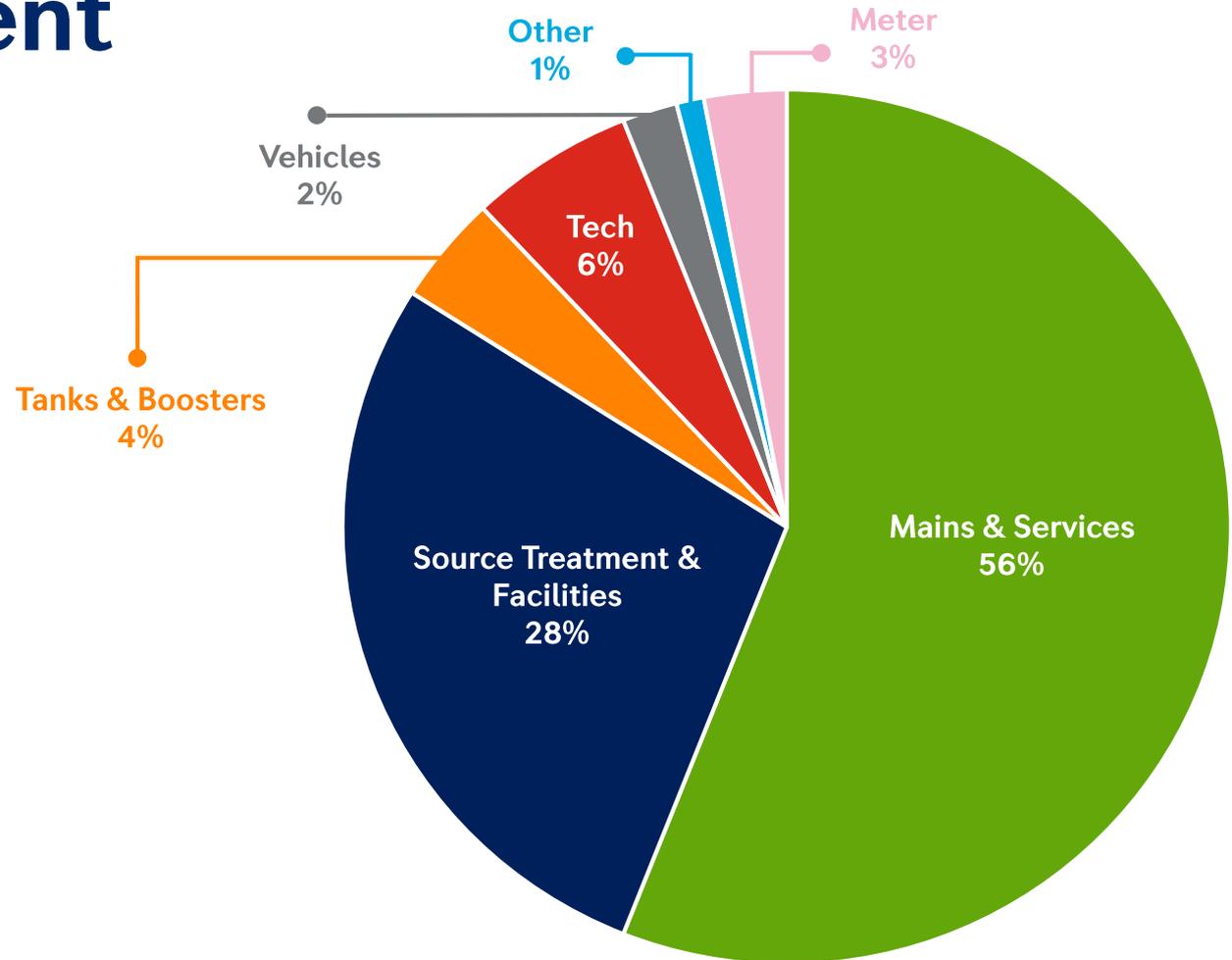
State	Rate Base (\$millions)*	Water Connections	Wastewater Connections	Total Customers
PA	2,831	440,031	26,846	466,877
OH	287	145,819	6,883	152,702
IL	276	65,273	15,150	80,423
TX	241	64,108	17,358	81,466
NJ	172	53,534	6,185	59,719
NC	165	80,891	18,900	99,791
IN	74	1,218	26,828	28,046
VA	77	25,812	7,787	33,599
<b>Total</b>	<b>4,123*</b>	<b>876,686</b>	<b>125,937</b>	<b>1,002,623</b>

\*as of December 31, 2017

# Infrastructure Investment

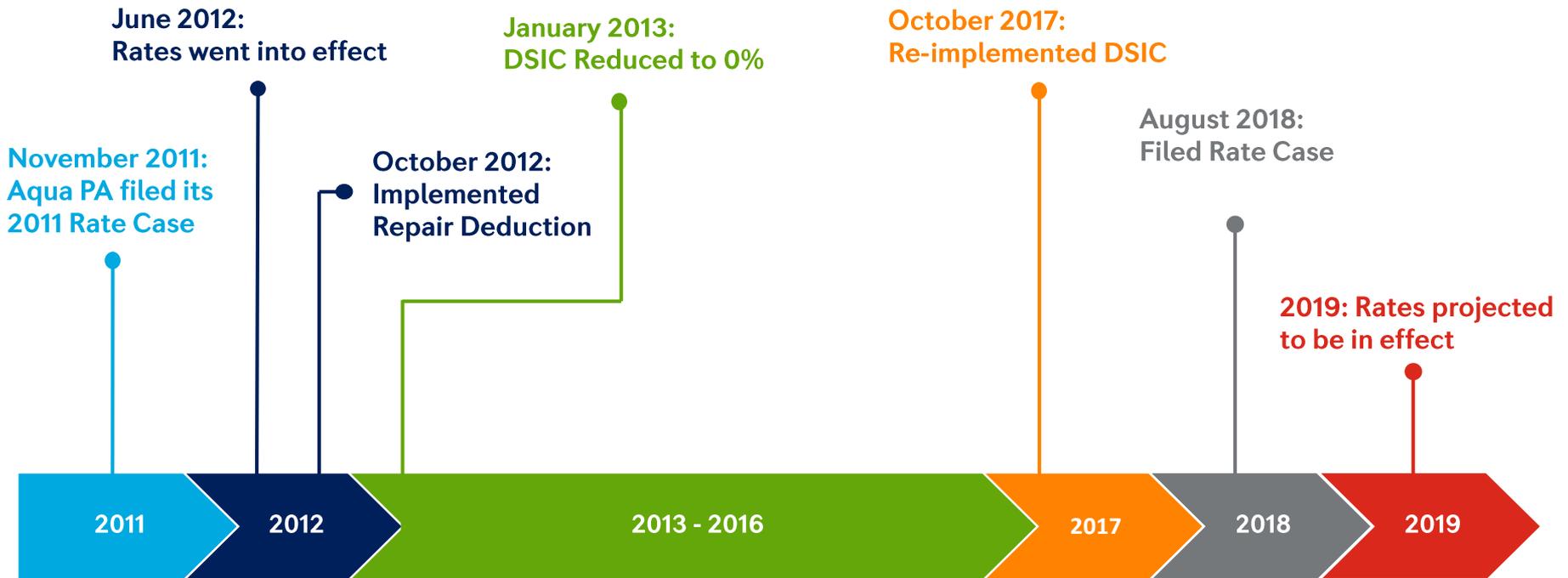
Regulated Operations

Capital Investment Breakdown 2018 - 2020



3 Year Total = \$1.4 billion

# PA Rate Case Summary



# PA Rate Case Summary

## Timeframe:

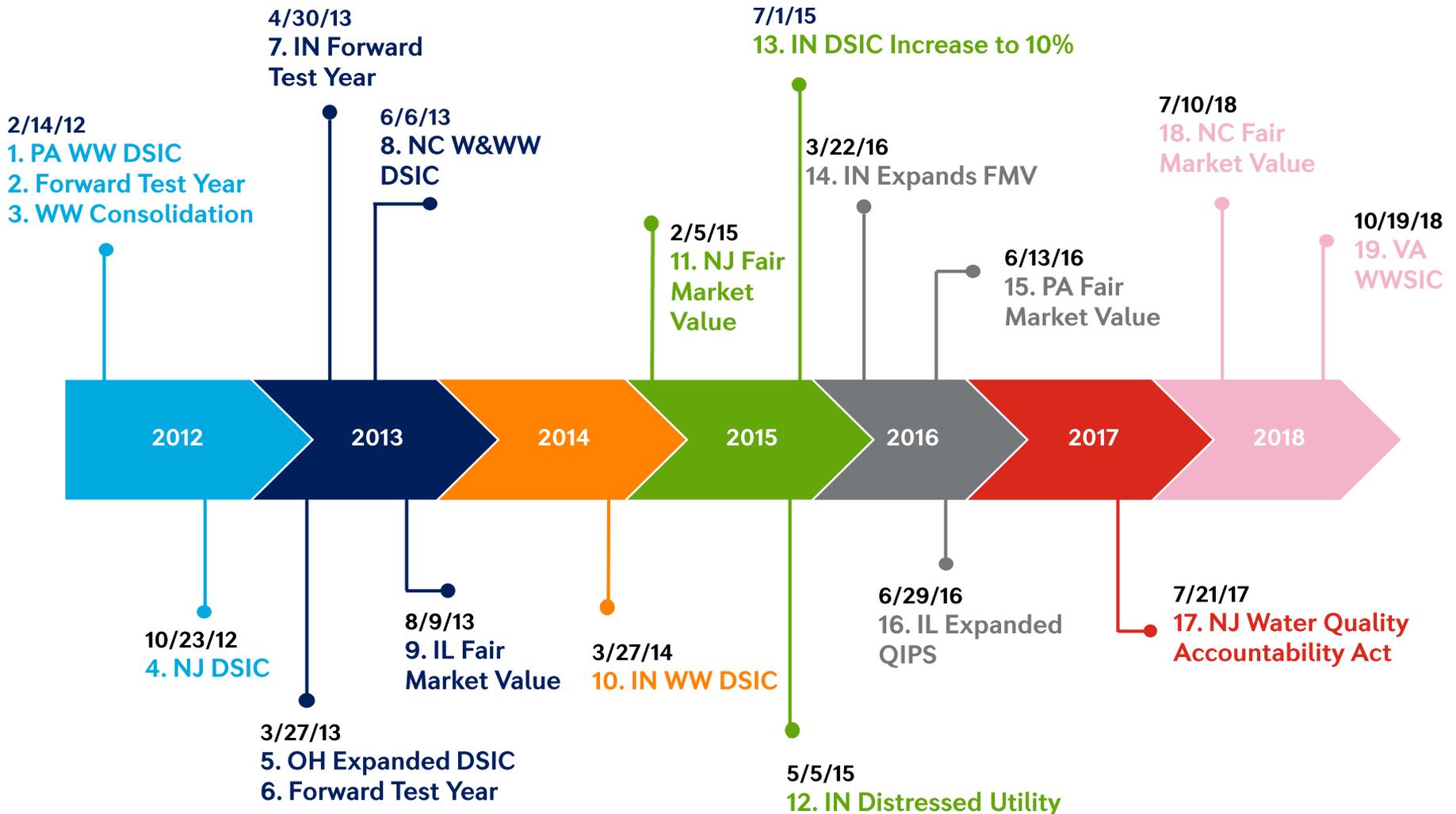
- Filed: August 2018
- Complete: 2019

## Case Summary/Issues:

- First case filed in 7 years
- Over \$2 billion of capital
- Consolidated Water & WW
- Over 20 Acquisitions
- First filing using Fully Projected Future Test Year
- Tax Act and Tax Repair

Year	PA CAPX (\$000's)
2012	\$129,923
2013	\$212,721
2014	\$214,155
2015	\$248,354
2016	\$251,373
2017	\$308,006
'18 and '19 (est.)	\$670,000
Total	\$2,034,532

# Water & Wastewater Regulatory Trends



# Rates and Surcharges Completed

As of November 5, 2018

State	Docket Number	Type	Awarded Annualized Revenue Increase (\$thousands)
Illinois	17-0259	Rate Case (w)	\$6,549
	17-0259	Rate Case (ww)	\$758
Indiana	50137, 50144, 50143, 50141	Tax Compliance Filing	(\$788)
New Jersey	WR16010090	Surcharge (w)	(\$39)
	WR18030237	Tax Compliance Filing	(\$2,615)
North Carolina	W-2018, Sub 363A	Surcharge (w)	(\$13)
	W-2018, Sub 363A	Surcharge (ww)	\$115
Ohio	Ordinance 22-2013 & 14-041	Rate Case (w)	\$1,333
	N/A	Tax Compliance Filing	(\$830)
Pennsylvania	M-2017-2638898, M-2018-3000644, M-2018-3000069, M-2018-3002175, M-2018-3004063	Surcharges (w)	\$19,303
Texas	48197	Tax Credit Surcharge	(\$3,726)
Virginia*	PUR-2017-00082	Rate Case (w)	-
	PUR-2017-00082	Rate Case (ww)	-
		<b>Total</b>	<b>\$20,047</b>

Rates and Surcharges differentiated by water (w) and wastewater (ww) systems

\*Final order subject to appeal. Revenue increase was zero primarily because the adjustment for the Tax Cuts and Jobs Act offset the normal increase.

# Rates and Surcharges Pending

As of November 5, 2018

State	Docket Number	Type	Requested Annualized Revenue Increase (\$thousands)
Indiana	Cause No. 45032 Sub docket 18 & 19	Tax Compliance Filing	(\$486)
North Carolina	W-218, Sub 497	Rate Case (w)	\$3,664
	W-218, Sub 497	Rate Case (ww)	\$1,304
Ohio	18-0337-WW-SIC	Surcharge (w)	\$2,440
Pennsylvania	R-2018-3003558	Rate Case (w)	\$58,299
	R-2018-3003561	Rate Case (ww)	\$13,470
	M-2018-3004861	Surcharge (w)	-
		<b>Total</b>	<b>\$78,691</b>

Rates and Surcharges differentiated by water (w) and wastewater (ww) systems