

Essential Utilities Inc. Earnings Call

Second 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

Dan Schuller – Financial Results

Matt Rhodes – Strategy and Corporate Development Update

Chris Franklin – Summary and Guidance

Q&A



Company Update

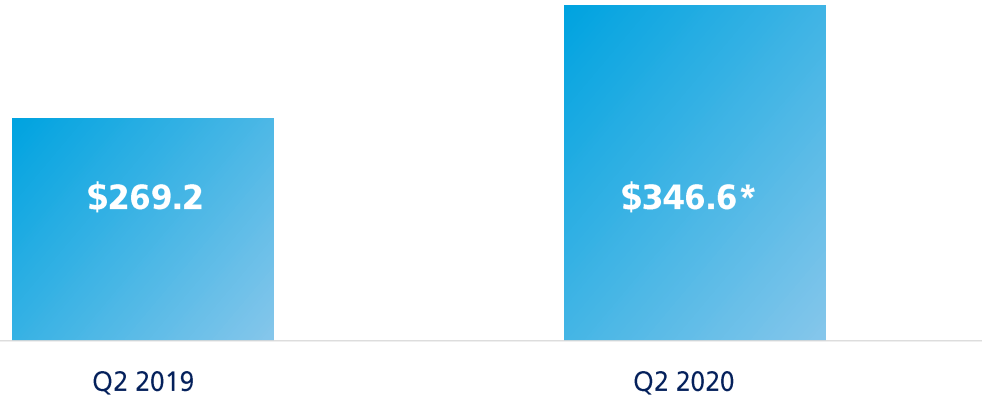
Chris Franklin

Chairman, Chief Executive Officer, and President



Corporate Highlights

Infrastructure Investment (\$m)



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

Net Income per Common Share (GAAP)



Acquisition Growth

- Closed East Norriton adding approximately 5,000 wastewater customers and \$21m of rate base
- Signed municipal agreements pending closing total over 200,000 customers and over \$300m of rate base
- Announced company's first FMV acquisition in Texas

Dividend Increased by 7.0%

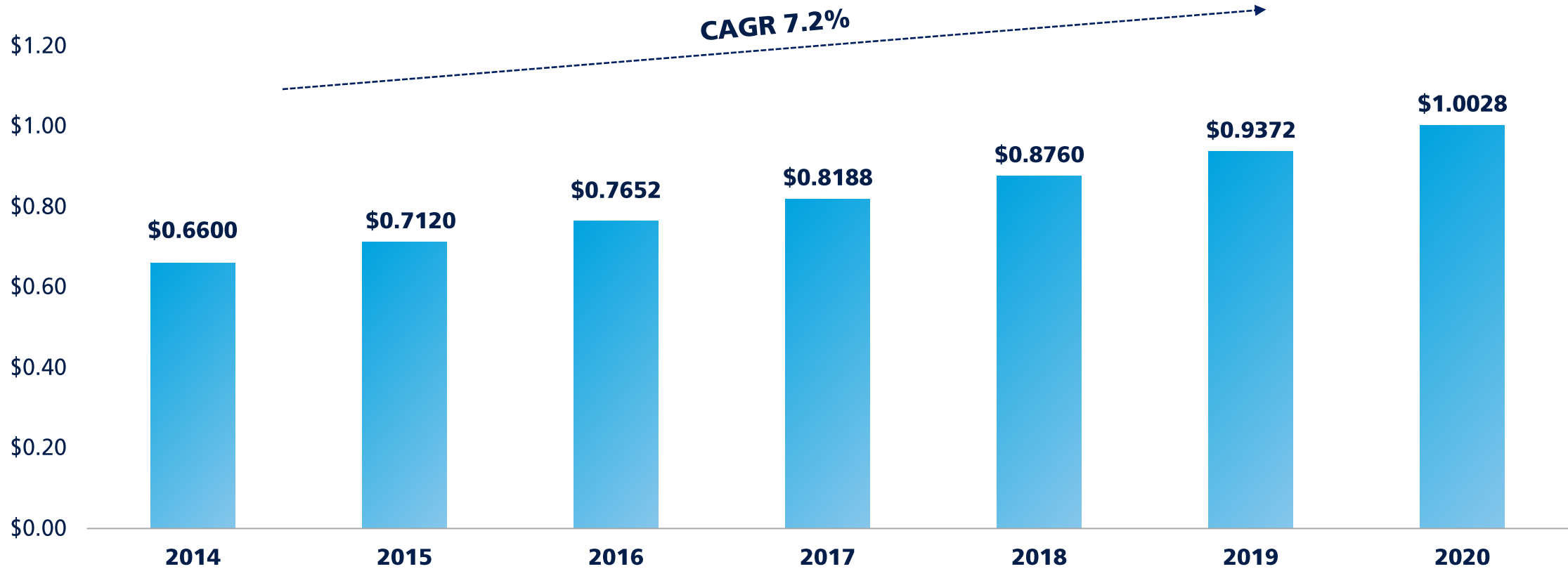
- Increased quarterly dividend to \$0.2507
- 30th increase in the last 29 years
- 75th consecutive year of dividend payments

Dividend Increase History

7.0% Increase to Annualized Dividend Rate Effective 9/1/2020



Dividends Per Share (annualized)



Peoples Leadership Update



Joseph Gregorini
President, Peoples



Mike Turzai
General Counsel, Peoples



Mike Huwar
President, Peoples



**Kim Mangano
Edvardsson**
VP, Finance, Peoples



Financial Results

Dan Schuller

Executive Vice President, Chief Financial Officer



Second Quarter Highlights

As of June 30, 2020

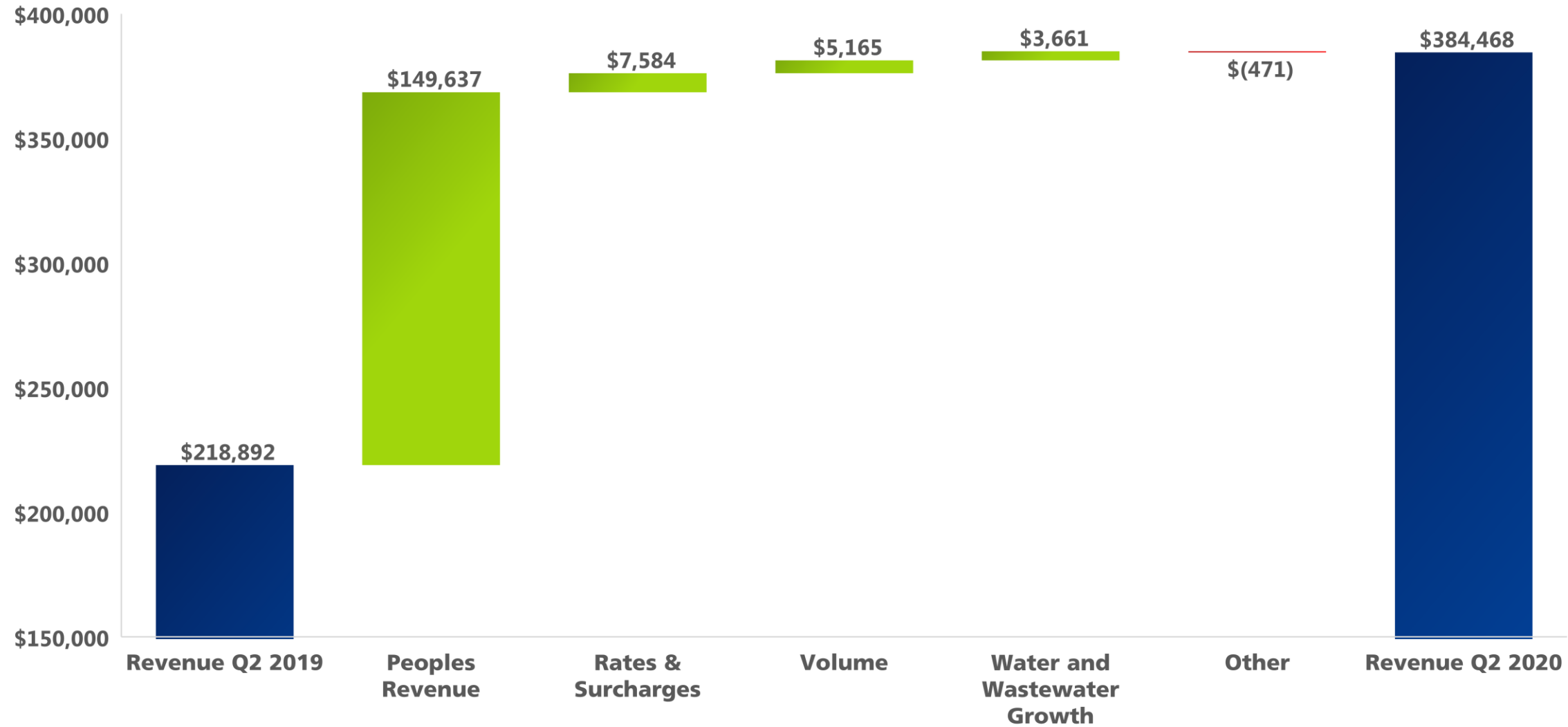
In millions except per share	Q2 2020		Q2 2019	Variance
Revenue	\$384.5	▲	\$218.9	75.6%
Operations and Maintenance Expense	\$128.6	▲	\$86.4	48.8%
Net Income (GAAP)	\$74.6	▲	\$54.9	35.9%
Net Income per Share (GAAP)	\$0.29	▲	\$0.25	16.0%

Operating Revenues

Q2 2020 vs. Q2 2019



Change in Operating Revenues (thousands)



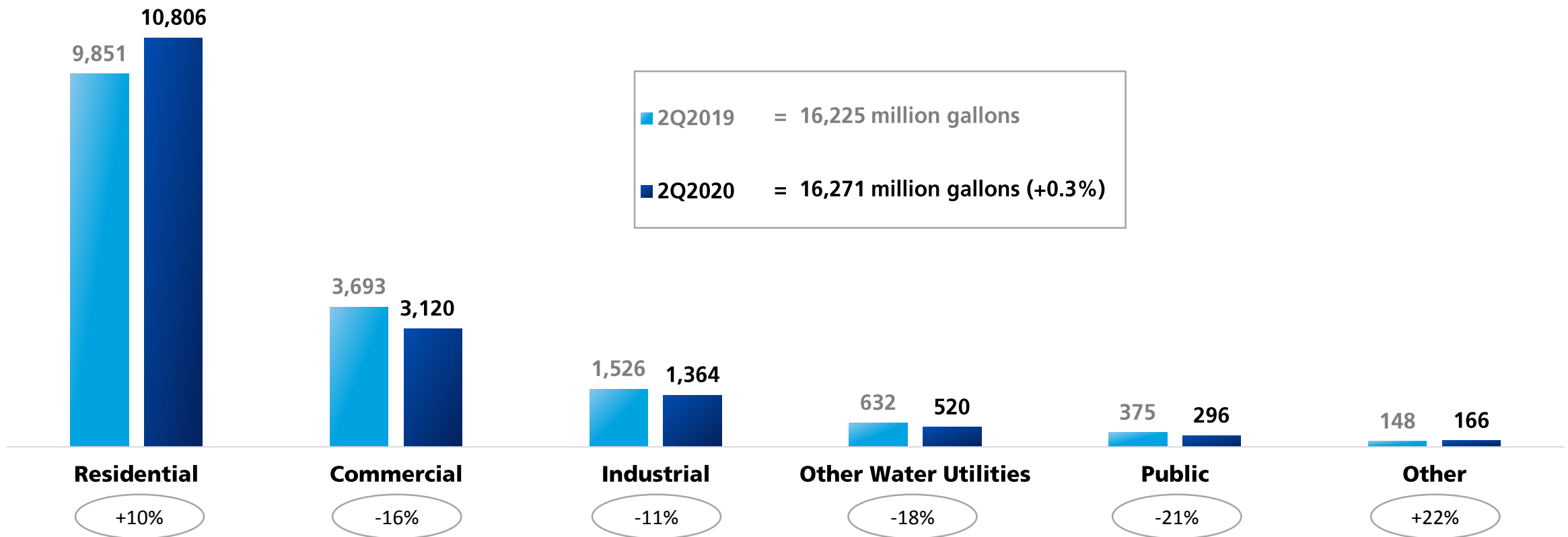
Usage by Customer Class – Regulated Water Segment

June 30, 2020 vs June 30, 2019 (Millions of Gallons)

NYSE: WTRG

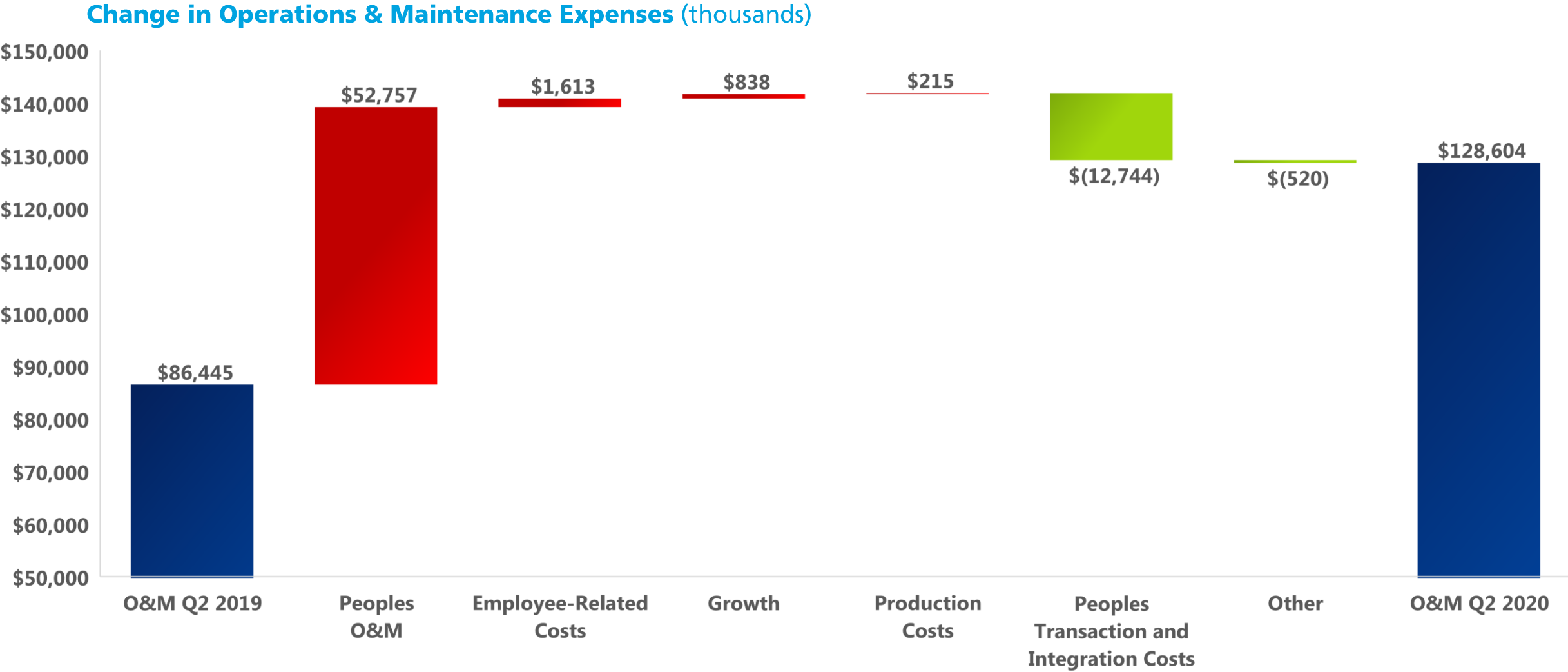


Due to COVID-19 and favorable weather, we saw residential usage increase by 10% in the second quarter when compared to the same time last year, while commercial usage decreased by almost 16%.



Operations & Maintenance Expenses

Q2 2020 vs. Q2 2019

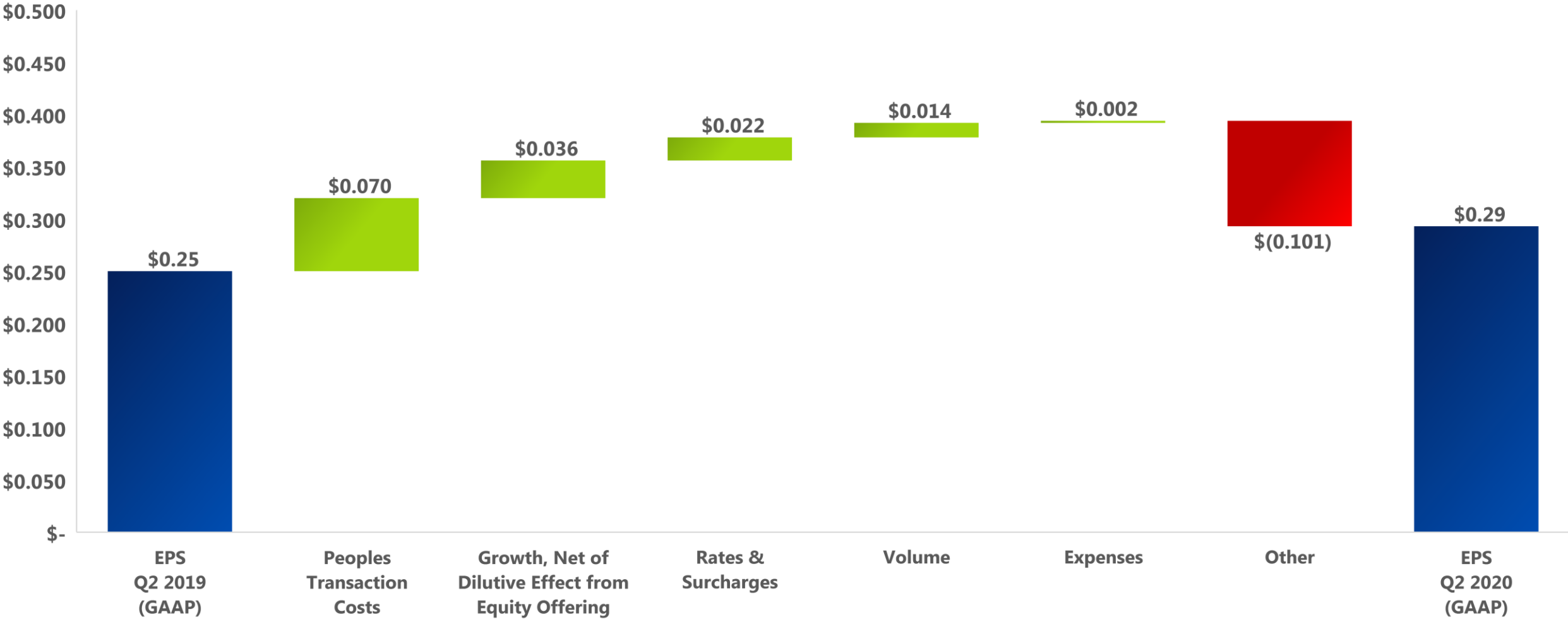


Earnings per Common Share

Q2 2020 vs. Q2 2019



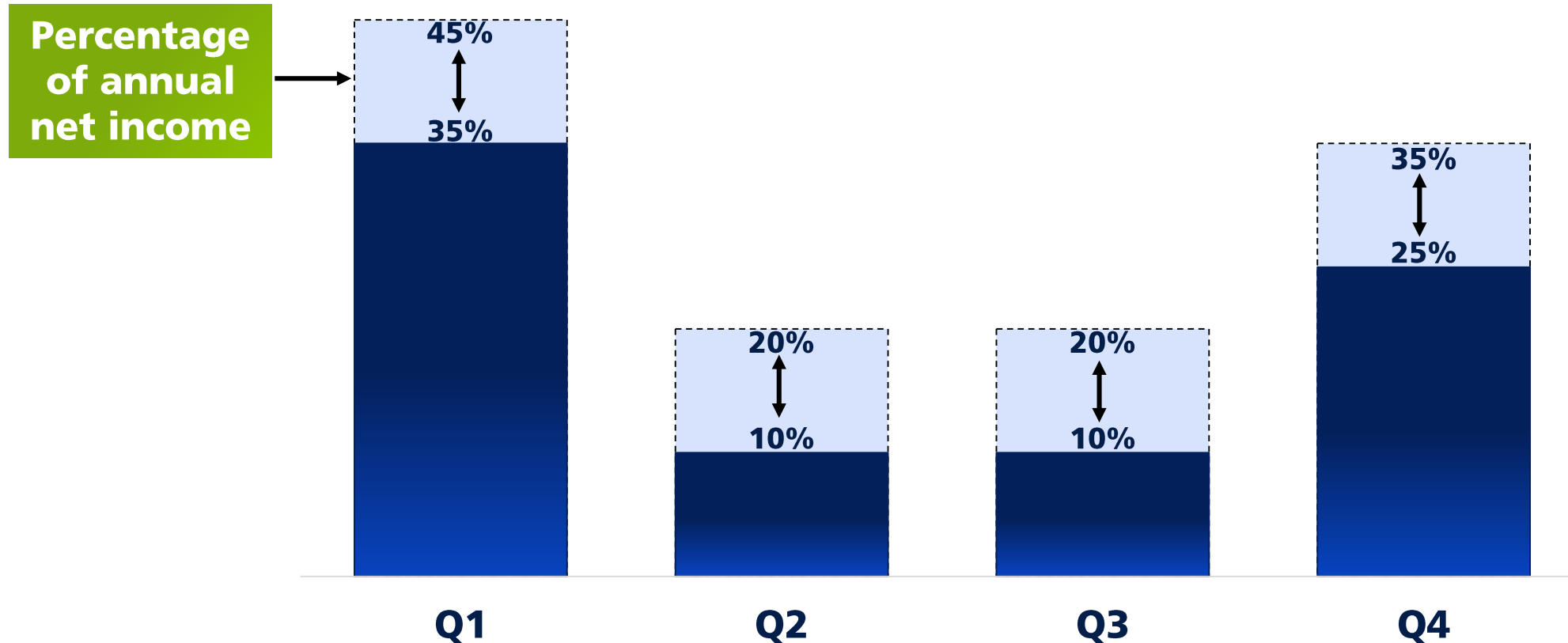
Change in Earnings Per Share





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.





Rate Activity

As of 8/5/2020

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 \$10.2 million
- Gas segment surcharges in KY and PA with annualized revenue increase of \$1.0 million

As of 8/5/2020

Pending Rate Cases and Surcharges

- Water segment base rate cases or surcharges in NJ, VA, NC, and OH with requested annualized revenue increase of \$5.2 million
- No pending gas segment base rate cases or surcharges

Note: Additional rate activity information provided in Appendix



Strategy and Corporate Development

Matt Rhodes

Executive Vice President, Strategy and Corporate Development

Growth Strategy

Core Competencies

- Infrastructure Investment (pipes, plants, etc.)
- Regulatory Affairs
- Operational Excellence

Which leads to our three-pronged growth strategy.

1

Municipal Initiative

- Driver of growing our foundational water/wastewater business
- Our primary focus today

2

Strategic M&A

- Opportunistic pursuit of large, regulated utility/infrastructure targets

3

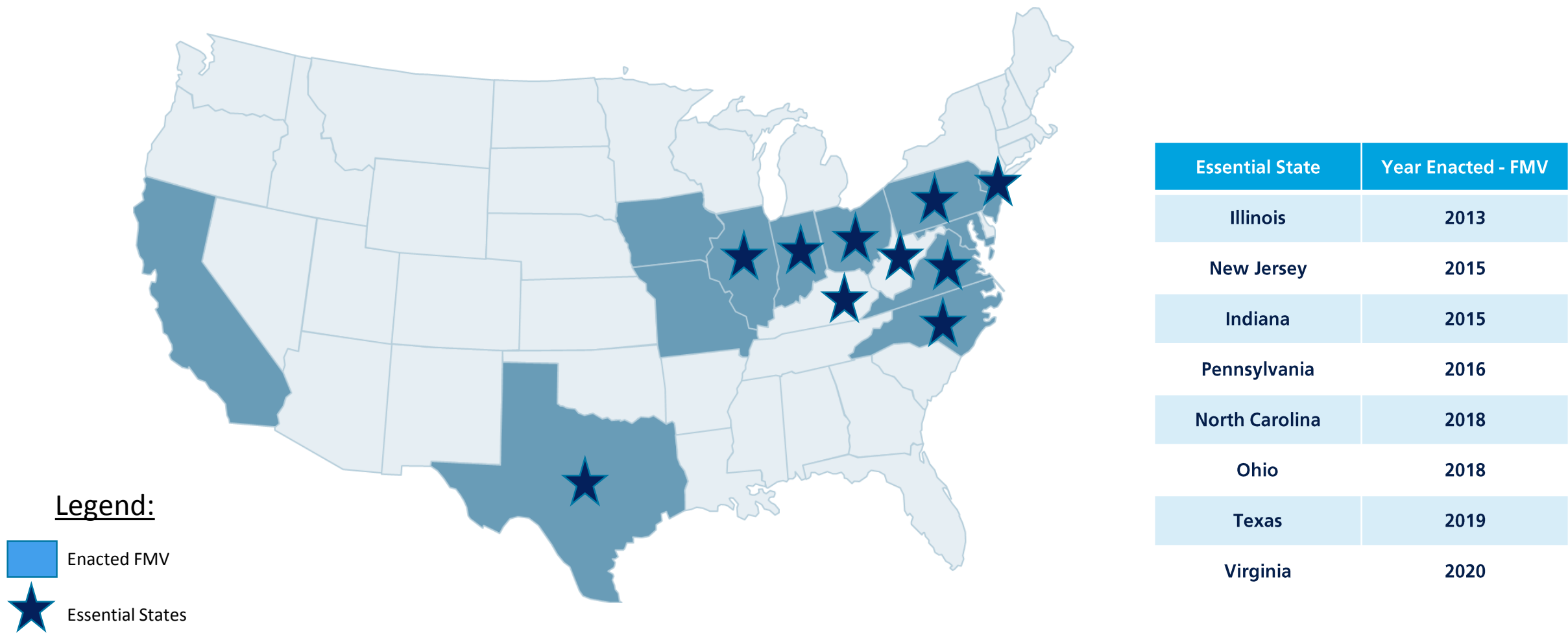
MBAs

- Complementary to our regulated business
- Focus on management of existing MBA's (~1% of current NI)



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.



Source: S&P Global Market Intelligence



2020 Water Segment Acquisitions

Closed Municipal Acquisitions

Since 2015 we have closed 58 total deals (includes investor-owned utilities and municipalities). These contributed approximately 53,000¹ new connections and approximately \$258M¹ in rate base.

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
Total			8,066	\$28,285

Signed Agreements Pending Closing

The ~\$300M of rate base with signed APAs is expected to generate ~\$15M of incremental annual earnings potential⁵

Acquisition	State	Type	Total Customers	Approx. Purchase Price (\$000s)
New Garden	PA	WW	2,106	\$29,500
Rockwell Utilities ²	IL	W / WW	721 / 721 ⁴	\$5,150
Commons Water ³	TX	W	1,000	\$4,000
DELCORA	PA	WW	198,000 ⁴	\$276,500
Total			202,548⁴	\$315,150

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

NYSE: WTRG



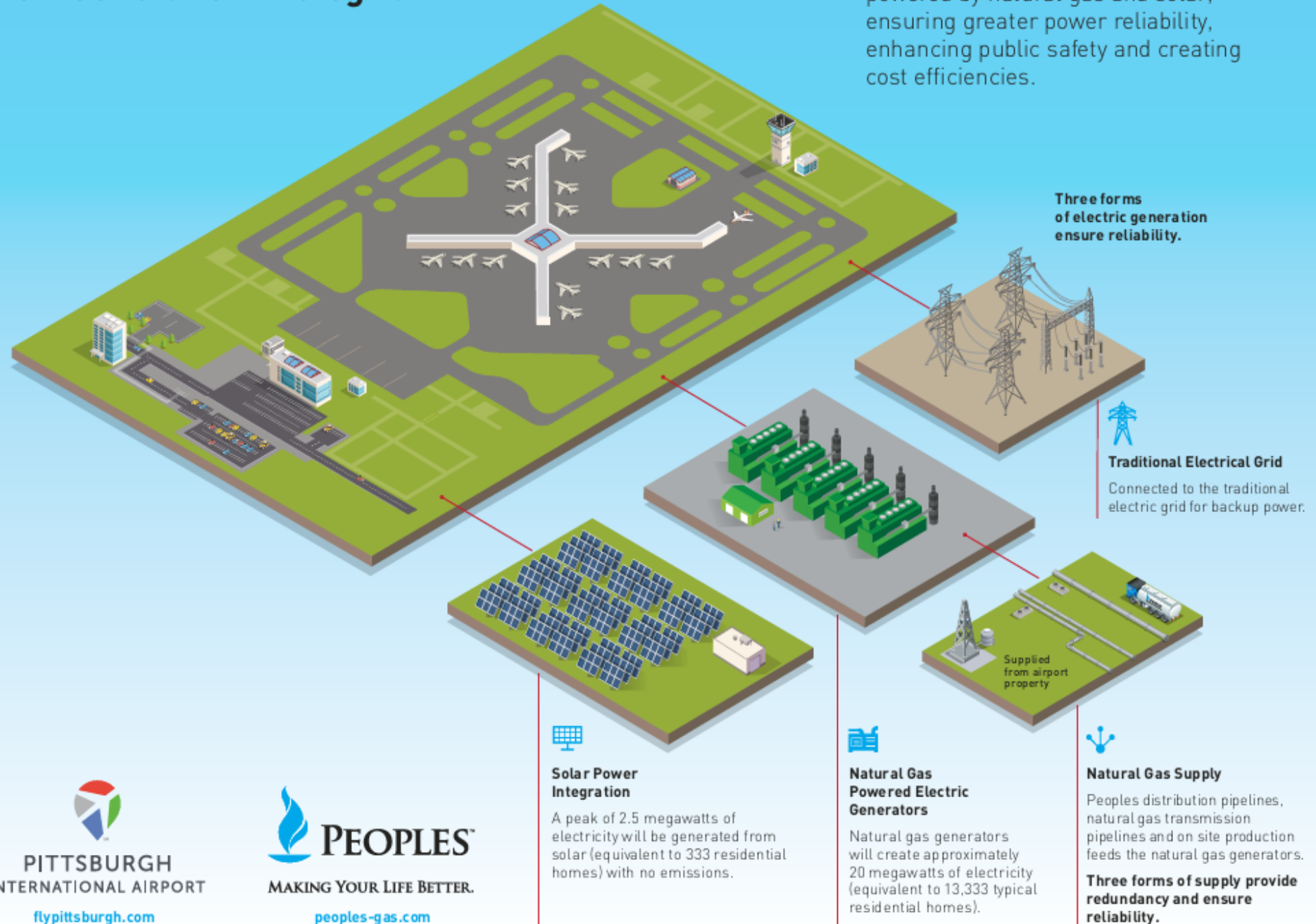
We are actively pursuing acquisition opportunities in most of our states, totaling approximately 365,000 customers. While we do not expect to close all of these opportunities, this illustrates the number of municipals we are evaluating and the increasing opportunity size. Of these potential pipeline opportunities, a majority are wastewater.

Size Range (Approx. # of Customers)	Total Customers (approx.)
>25,000	120,000
10,000 – 25,000	155,000
<10,000	90,000
Total	365,000

Community and Environmental Impact Opportunities

Pittsburgh International Airport New Generation Microgrid

Pittsburgh International Airport is building a first-of-its-kind microgrid powered by natural gas and solar, ensuring greater power reliability, enhancing public safety and creating cost efficiencies.





Summary and Guidance

Chris Franklin

Chairman, Chief Executive Officer, and President



Summary & Priorities

- Dividend increased by 7%, our 29th consecutive year of increases
- On track to spend \$950M on infrastructure improvements in 2020
- Filed the Tax Repair Catch-up with the Pennsylvania PUC
- Continue operational excellence (water quality, gas safety, etc.)
- Integration of Peoples
- Advance DELCORA transaction process
- Pursue municipal acquisition pipeline



Guidance

Earnings¹

- **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 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 Second Quarter 2020 Conference Call

**Third Quarter 2020 Earnings
Conference Call and Webcast**
Wednesday, November 4, 2020

For more information contact:

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Appendix

GAAP to Non-GAAP Reconciliation

(In thousands, except per share amounts)



	Quarter Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net income (GAAP financial measure)	\$ 74,629	\$ 54,903	\$ 126,410	\$ 71,827
Adjustments:				
Plus: Transaction-related expenses for the Peoples transaction closed on March 16, 2020	-	20,658	25,573	62,086
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	-	1,318	-	1,318
Plus: Overlapping interest expense on refinanced debt	-	452	-	452
Less: Interest income earned on proceeds from April 2019 equity offerings	-	(7,408)	-	(7,408)
Income tax effect of non-GAAP adjustments	-	(3,108)	(31,803)	(11,736)
Adjusted income (Non-GAAP financial measure)	\$ 74,629	\$ 66,815	\$ 228,312	\$ 116,539
Net income per common share (GAAP financial measure):				
Basic	\$ 0.29	\$ 0.25	\$ 0.52	\$ 0.36
Diluted	\$ 0.29	\$ 0.25	\$ 0.50	\$ 0.36
Adjusted income per common share (non-GAAP financial measure):				
Diluted	\$ 0.29	\$ 0.37	\$ 0.90	\$ 0.65
Average common shares outstanding:				
Basic	254,167	219,055	245,144	198,747
Diluted	254,434	219,790	254,452	199,303
Average common shares outstanding:				
Shares used in calculating diluted net income per common share	254,434	219,790	254,452	199,303
Less: Adjustment for effects of April 2019 common share issuance	-	(28,336)	-	(14,246)
Less: Adjustment for effects of April 2019 tangible equity unit issuance	-	(12,760)	-	(6,415)
Shares used in calculating adjusted diluted income per common share (non-GAAP financial measure)	254,434	178,694	254,452	178,642



Year to Date Highlights

As of June 30, 2020

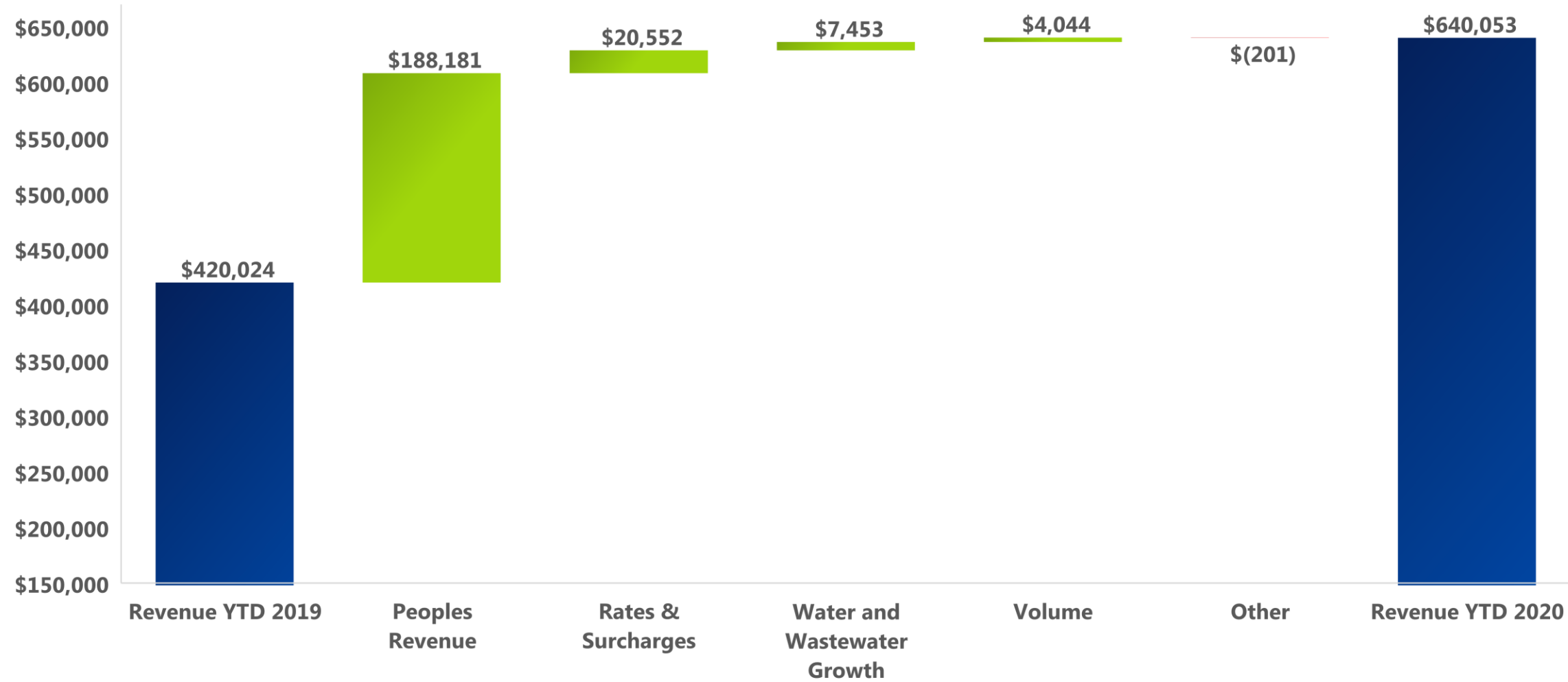
In millions except per share	YTD 2020		YTD 2019	Variance
Revenue	\$640.1	▲	\$420.0	52.4%
Operations and Maintenance Expense	\$235.2	▲	\$165.8	41.9%
Net Income (GAAP)	\$126.4	▲	\$71.8	76.0%
Net Income per Share (GAAP)	\$0.50	▲	\$0.36	38.9%
Adjusted Income (non-GAAP)	\$228.3	▲	\$116.5	95.9%
Adjusted Income per Share (non-GAAP)	\$0.90	▲	\$0.65	38.5%

Operating Revenues

YTD June 30, 2020 vs. YTD June 30, 2019

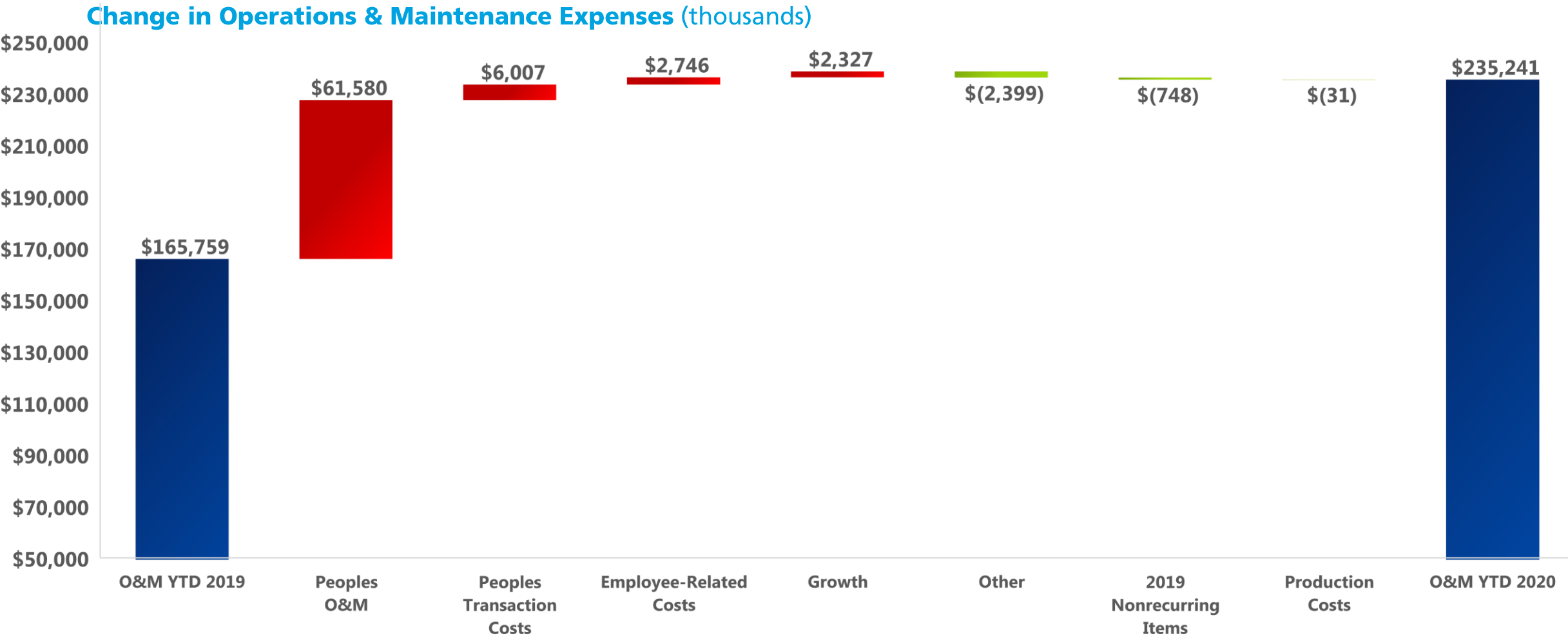


Change in Operating Revenues (thousands)



Operations & Maintenance Expenses

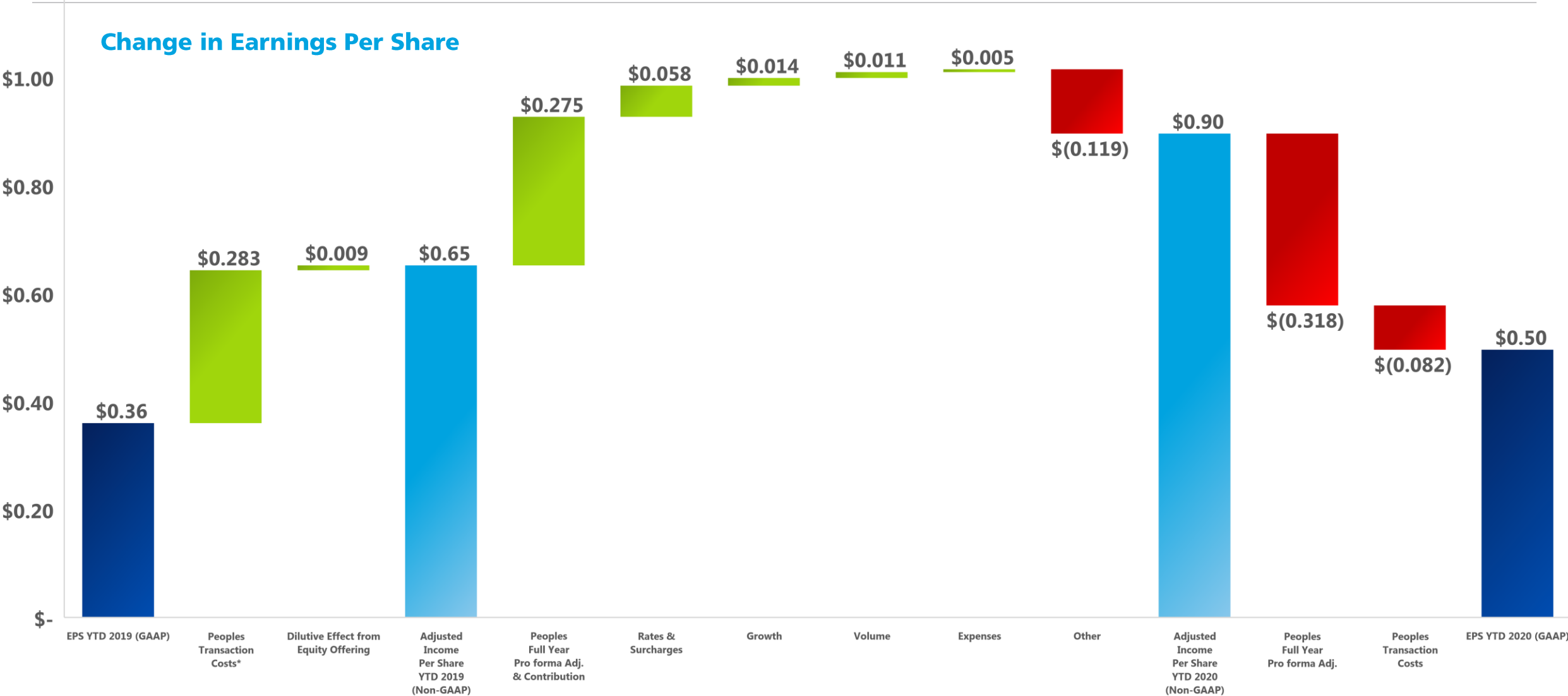
YTD June 30, 2020 vs. YTD June 30, 2019





Earnings per Common Share

YTD June 30, 2020 vs. YTD June 30, 2019



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



2020 Rates and Surcharges Completed

As of August 5, 2020

State	Docket Number	Segment	Type	Awarded Annualized Revenue Increase (\$thousands)
Illinois	N/A	Water	Surcharge	\$2,902
	N/A	Wastewater	Surcharge	\$369
Virginia	PUR-2019-00209	Water	Surcharge	\$137
	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	\$2,477*
	W-218, Sub 526	Wastewater	Rate Case	\$787*
Ohio	89-7028-WW-TRF	Water	Rate Case	\$995
Indiana	45314 U	Water	Rate Case	\$48
	45308 U	Wastewater	Rate Case	\$11
Pennsylvania	M-2020-3020466	Water	Surcharge	\$1,551
Pennsylvania	M-2020-3020493	Wastewater	Surcharge	\$71
Kentucky	2020-00059	Gas	Surcharge	\$632
Pennsylvania	N/A	Gas	Surcharge	\$345
Total				\$11,171

*Effective 7/30/2020, rates received are under bond and subject to North Carolina Utilities Commission final approval.



Rates and Surcharges Pending

As of August 5, 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
North Carolina	W-218, Sub 526	Water	Rate Case	\$113
	W-218, Sub 526	Wastewater	Rate Case	\$82
Ohio	20-0532-WW-SIC	Water	Surcharge	\$2,171
Total				\$5,189



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



2019 Customer Count and Revenue

By Customer Class

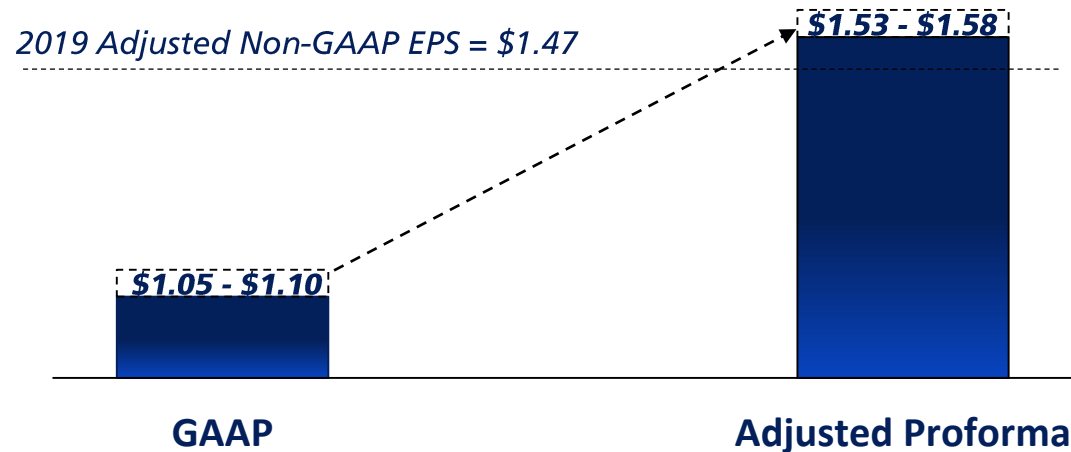
<i>Water Segment</i>				
Customer Class	Customers (#)	Customers (%)	Revenue (\$K)	Revenue (%)
Residential	822,817	80.1%	\$ 521,972	58.7%
Commercial	41,892	4.1%	\$ 145,581	16.4%
Industrial	1,339	0.1%	\$ 30,667	3.4%
Public	9,110	0.9%	\$ 13,251	1.5%
Fire Protection	9,832	1.0%	\$ 33,580	3.8%
Sewer	141,666	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

2020E Earnings Per Share



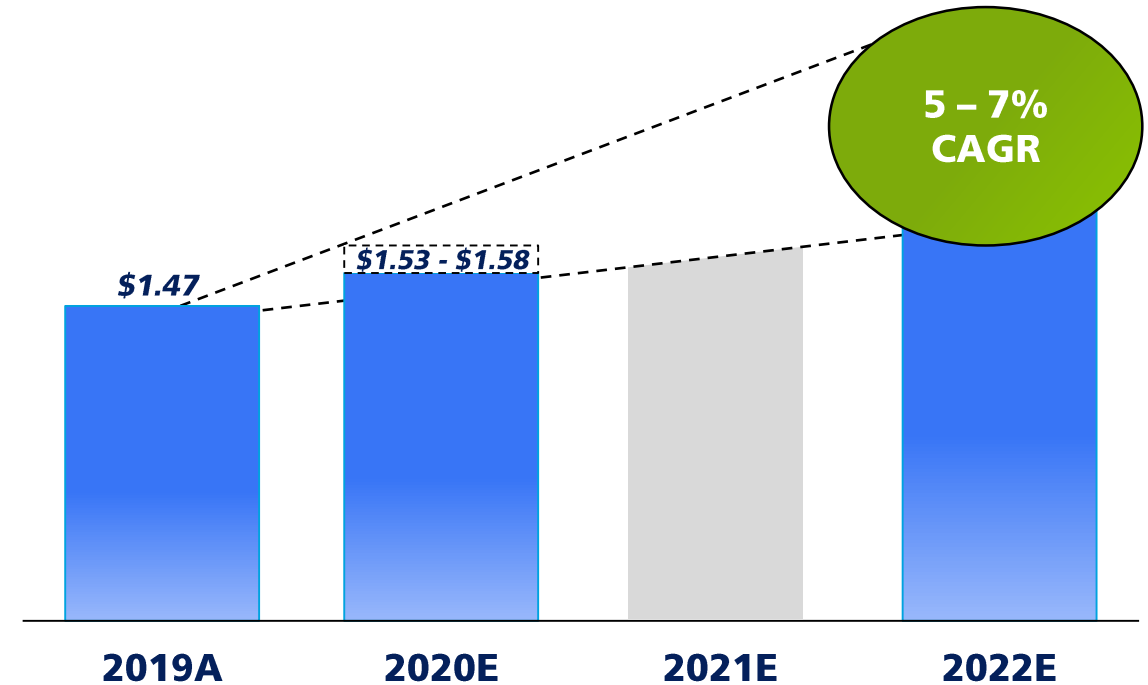
9.5 Months of Peoples Results

- 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