

# Earnings Call

First Quarter 2019



May 3, 2019

# 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 upon, among other things, our current assumptions, expectations, plans and beliefs concerning future events and their potential effect on us. These forward-looking statements 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; 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, 2018, which is on file with the SEC and our current report on form 8-K/A filed with the SEC on April 15, 2019. 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 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

# Corporate Highlights

## Peoples Financing Complete

- CPPIB investment kicks off permanent financing with \$750 million PIPE investment
- Equity, TEU and debt offerings successfully closed

## Revenue Growth (millions)



## Progress Towards Peoples Regulatory Approval

- Regulatory approval for Peoples transaction obtained in Kentucky and West Virginia
- Initiated settlement discussions in PA

## Infrastructure Investment (millions)



# Summary of Financial Results



Dan Schuller

Executive Vice President, CFO

# First Quarter Highlights

As of March 31, 2019

-  Favorable Change
-  Unfavorable Change

In millions except per share	Q1 2019		Q1 2018	Variance
Revenue	\$201.1		\$194.3	3.5%
Operations and Maintenance Expense	\$79.3		\$73.9	7.3%
Net Income (GAAP)	\$16.9		\$50.8	(66.7%)
Net Income per Share (GAAP)	\$0.09		\$0.29	(69.0%)
Adjusted Income (non-GAAP)	\$49.7		\$50.8	(2.2%)
Adjusted Income per Share (non-GAAP)	\$0.28		\$0.29	(3.4%)

# Operating Revenues

Q1 2019 vs. Q1 2018

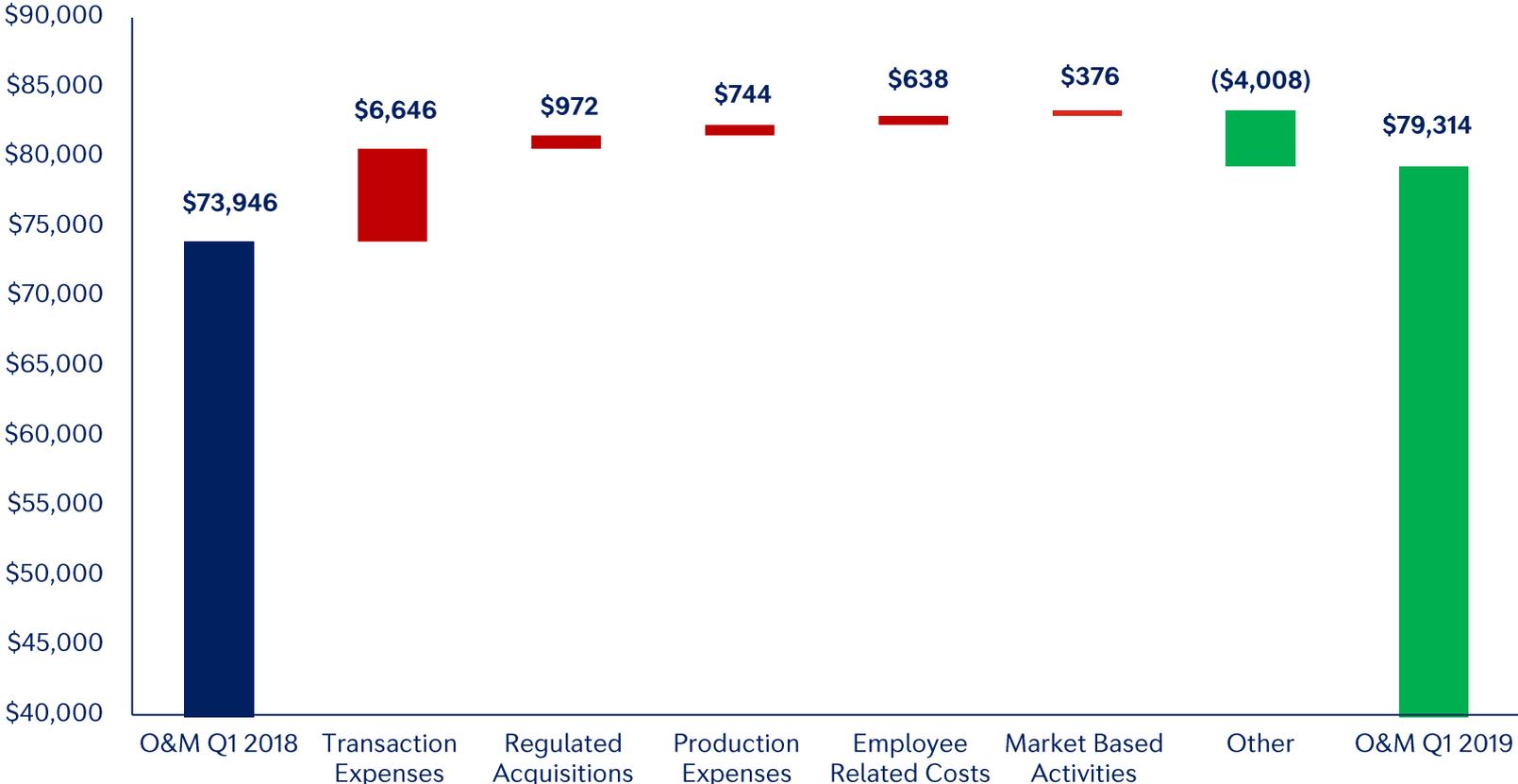
## Change in Operating Revenues (thousands)



# Operations & Maintenance Expenses

Q1 2019 vs. Q1 2018

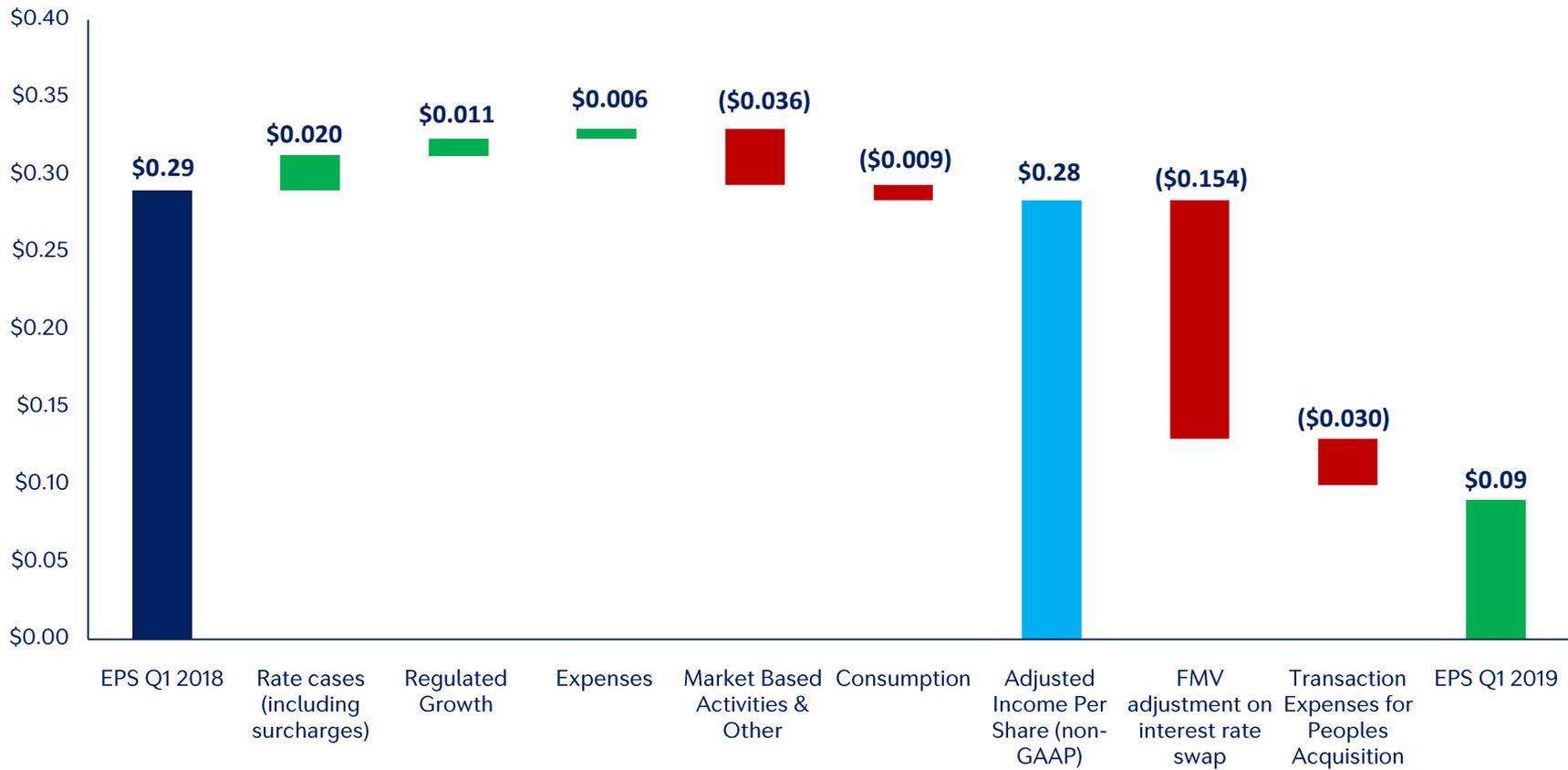
Change in Operations & Maintenance Expenses (thousands)



# Earnings per Common Share

Q1 2019 vs. Q1 2018

## Change in Earnings Per Share



# 2019 Rate Activity

*As of 5/2/2019*

## Completed Rate Cases and Surcharges

- Base rate cases or surcharges in IL, OH and PA with requested annualized revenue increase of **\$4.9 million**

*As of 5/2/2019*

## PA Rate Case Settlement Reached Pending Approval

- \$47 million in additional annual revenue expected to go into rates, approximately 65% of our initial ask.

*As of 5/2/2019*

## Pending Rate Cases and Surcharges

- Base rate cases or surcharges filed in NJ, NC and OH
- Requested **\$6.3 million** in additional annualized revenue

# Peoples PA Rate Case Update

Peoples Natural Gas <sup>1</sup> (PA)	
Date Filed	28-Jan-2019
Requested Rate Base	\$2,052m
Test Year	<ul style="list-style-type: none"> <li>Fully-projected future test year ending Oct-2020</li> </ul>
Requested Revenue Increase (\$m)	\$94.9m
Authorized Increase	<ul style="list-style-type: none"> <li>Rate case proceedings ongoing</li> </ul>
Timing	<ul style="list-style-type: none"> <li>New rates expected to go into effect in fall 2019</li> </ul>
Commentary	<ul style="list-style-type: none"> <li>Peoples' first rate case since 2012 filing</li> <li>Supports the largest infrastructure initiative in the company's history</li> <li>Represents consolidation of Peoples and Equitable divisions</li> </ul>

<sup>1</sup> Does not include Peoples Gas, TW Phillips and Delta.

# Sources and Uses

(\$ in millions)

Sources of Funds		Uses of Funds	
Common Stock	\$1,294	Peoples Equity Purchase Price <sup>1</sup>	\$2,905
CPPIB Equity Investment <sup>2</sup>	\$750	Assumption of Peoples debt <sup>3</sup>	\$1,370
Tangible Equity Units ("Mandatory Convertible")	\$690	Aqua Private Placement Note Refinancing	\$314
Debt	\$900	Transaction Costs / Expenses	\$265
Assumption of Peoples debt <sup>3</sup>	\$1,370	General Corporate Purposes <sup>4</sup>	\$150
<b>Total Sources of Funds</b>	<b>\$5,004</b>	<b>Total Uses of Funds</b>	<b>\$5,004</b>

- *On 29-Mar-2019, we announced an approximately \$750m investment from CPPIB which will close concurrently with, and contingent upon, the Peoples acquisition<sup>2</sup>*
- *Our permanent financing plan targets a strong balance sheet and strong investment grade credit ratings for a fully regulated company*

<sup>1</sup> Assumes that the Peoples Acquisition cash purchase price is reduced by \$1.37b based on assumption of \$1.37b of Peoples' indebtedness.

<sup>2</sup> Through the investment, CPPIB will acquire approximately 21.7 million newly issued shares of Aqua's common stock.

<sup>3</sup> Based on estimated Peoples net debt at closing.

<sup>4</sup> General corporate purposes may include working capital and capital needs or repayment of certain revolving credit facility borrowings.

# Strong Debt Issuance and Credit Ratings

- Issued \$900 million of senior notes at a weighted average yield of 3.96%
- Weighted average maturity of 21 years
- Lower interest rate than expected at October announcement
- Strong investment-grade ratings
- Interest rate swaps settled; will result in \$11.1 million of income from mark-to-market in Q2

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**S&P Global**  
Ratings

MOODY'S

# Municipal Growth



Chris Franklin

Chairman, Chief Executive Officer and President

# Recent Municipal Acquisition Activity

## 2018 Closed Acquisitions

Acquisitions	State	Type	Total Cust.	Approximate Rate Base (\$thousands)
Manteno	IL	WW	3,890	\$25,200
Limerick	PA	WW	5,497	\$64,100
Peotone	IL	W / WW	3,083	\$12,500
East Bradford	PA	WW	1,240	\$5,000
<b>Total</b>			<b>13,710</b>	<b>\$106,800</b>

As of December 31, 2018

Also closed \$28.3 million acquisition of Tredyffrin Township Municipal Authority's trunk sewer system connecting five municipal systems to treatment plant

2.3% total customer growth in 2018 from acquisitions (over 14,000 customers) and organic growth (over 8,500 customers)

An additional ~450 customers were added from small, non-municipal acquisitions.

**~\$100m of rate base acquired expected to generate ~\$5m of incremental annual earnings potential<sup>1</sup>**

## Signed Municipal Agreements Pending Closing

Acquisition	State	Type	Total Cust.	Approx. Purchase Price (\$000s)
New Garden	PA	WW	2,106	\$29,500
Schuylkill	PA	W	600	\$3,600
Grant Park	IL	WW	540	\$2,300
Cheltenham	PA	WW	10,450	\$50,250
Skyline	IL	W/WW	752	\$3,550
East Norriton	PA	WW	4,952	\$21,000
<b>Total</b>			<b>19,400</b>	<b>\$110,200</b>

As of April 12, 2019

*Additional non-municipal system Northern Neck in Virginia with 540 customers closed in Q1 '19.*

Note: Transactions above listed in chronological order of closing / signing.

<sup>1</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.

# Current Water and Wastewater Municipal Transaction Opportunities

*We are actively pursuing acquisition opportunities, in four of our existing states, totaling over 400,000 customers. While we do not expect to close all of these opportunities, this chart is meant to illustrate the significant size of and the number of municipals we are currently evaluating*

Size Range (Approx. # of Customers)	Total Customers (approx.)
>50,000	315,000
10,000 – 50,000	54,000
<10,000	46,000
<b>Total</b>	<b>415,000</b>

# Peoples Transaction



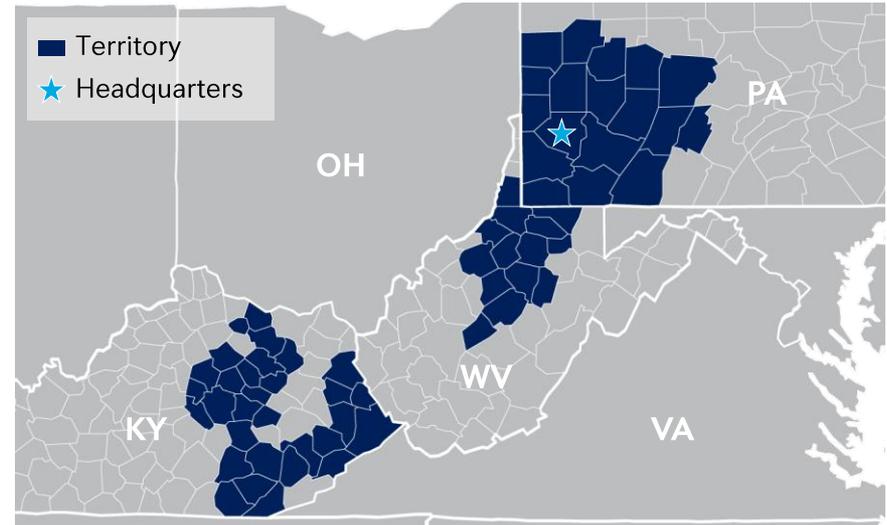
Chris Franklin

Chairman, Chief Executive Officer and President

# 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 by SteelRiver of Peoples in Feb. '10, TW Phillips in May '11, Equitable in Dec. '13 and Delta Gas in Sept. '17
- Employees: 1,500+
- Approximately 15,200 miles of distribution pipeline, 2,400 miles of gathering pipeline and 310 miles of intrastate transmission pipeline as of Dec. '18



## Financial Overview

- Long-term Infrastructure Improvement Plan (“LTIIP”) for approximately \$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 earnings from regulated gas distribution
- Projected Rate Base CAGR: ~8-10% ('19-'21)<sup>1</sup>
- Peoples Natural Gas filed a PA rate case in January 2019

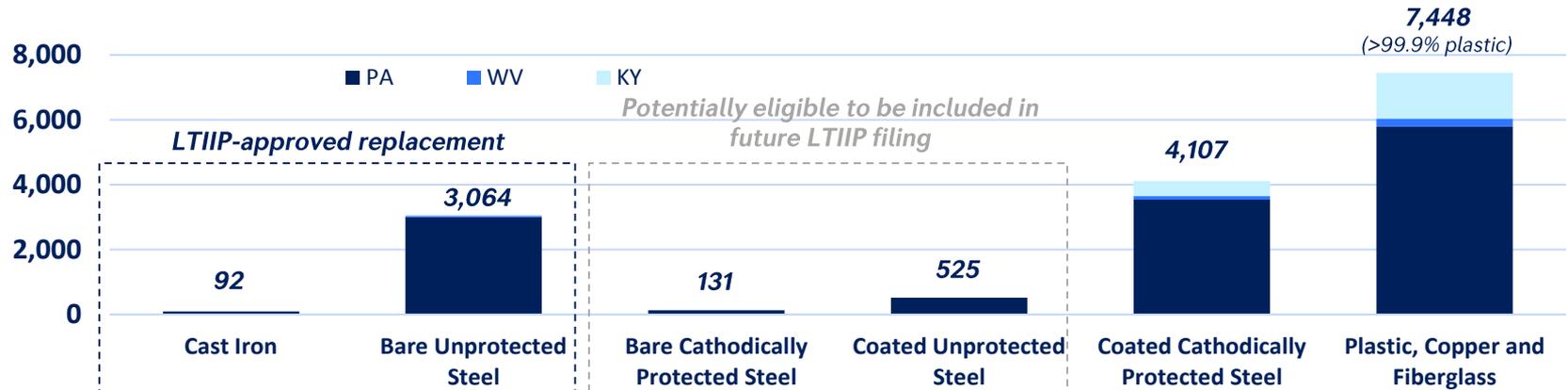
State	Approximate # of Customers
Pennsylvania	693,244
Kentucky	38,701
West Virginia	12,868
<b>Total</b>	<b>744,813</b>

Source(s): SNL, FERC filings; Peoples projections per Peoples management, adjusted per Aqua diligence.

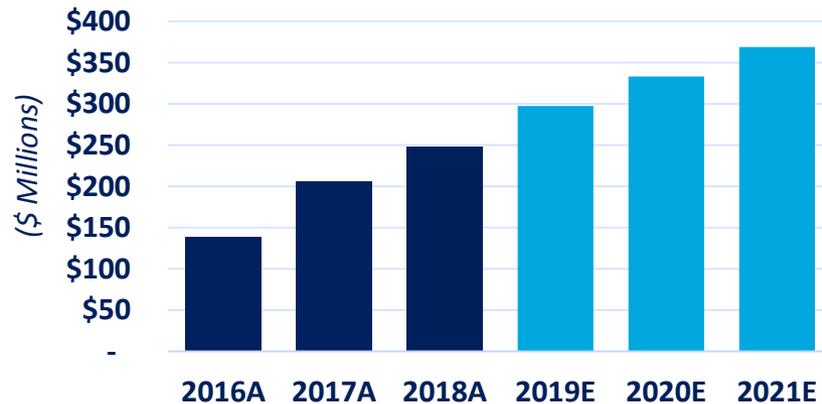
<sup>1</sup> Represents expected compound annual growth from 01-Jan-2019 through 31-Dec-2021 based on capex, depreciation and rate base assumptions.

# Peoples' Pipeline Replacement Program

## Peoples' Distribution System Material<sup>1</sup> (Miles)



## Capital Expenditures



- Peoples has identified over 3,000 miles of bare steel and cast iron pipe to be replaced under its LTIIIP 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

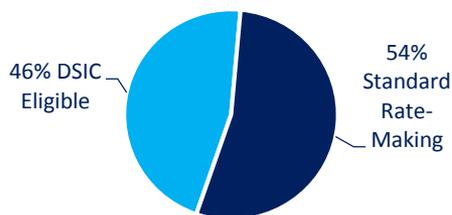
*There is ample opportunity at Peoples to deploy capital to improve aging infrastructure and earn timely recovery under the LTIIIP*

<sup>1</sup>Represents latest data available as of announcement of the Peoples acquisition on 23-Oct-2018.

# Attractive Capex Recovery Mechanisms

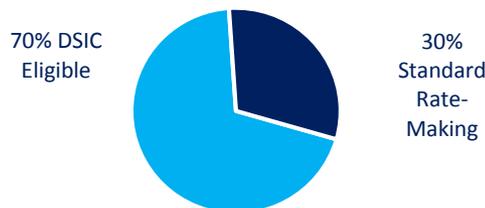
Large share of capex eligible for DSIC and other mechanisms significantly reduces regulatory lag for combined company.

**Aqua Capex: 2019-2021 Estimates**



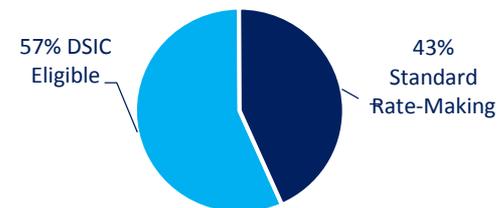
~7% Rate Base CAGR<sup>1</sup>

**Peoples Capex: 2019-2021 Estimates**



~8-10% Rate Base CAGR<sup>1</sup>

**Pro Forma Combined Capex: 2019-2021 Estimates**



State	PA	IN	OH	NJ	IL	NC
Mechanism	DSIC	DSIC	SIC	DSIC	QIPS	WSSIC
Allowed Surcharge	7.5% W 5% WW	10%	12.75% W 9% WW	5%	2.5% Avg. annual increase	5%

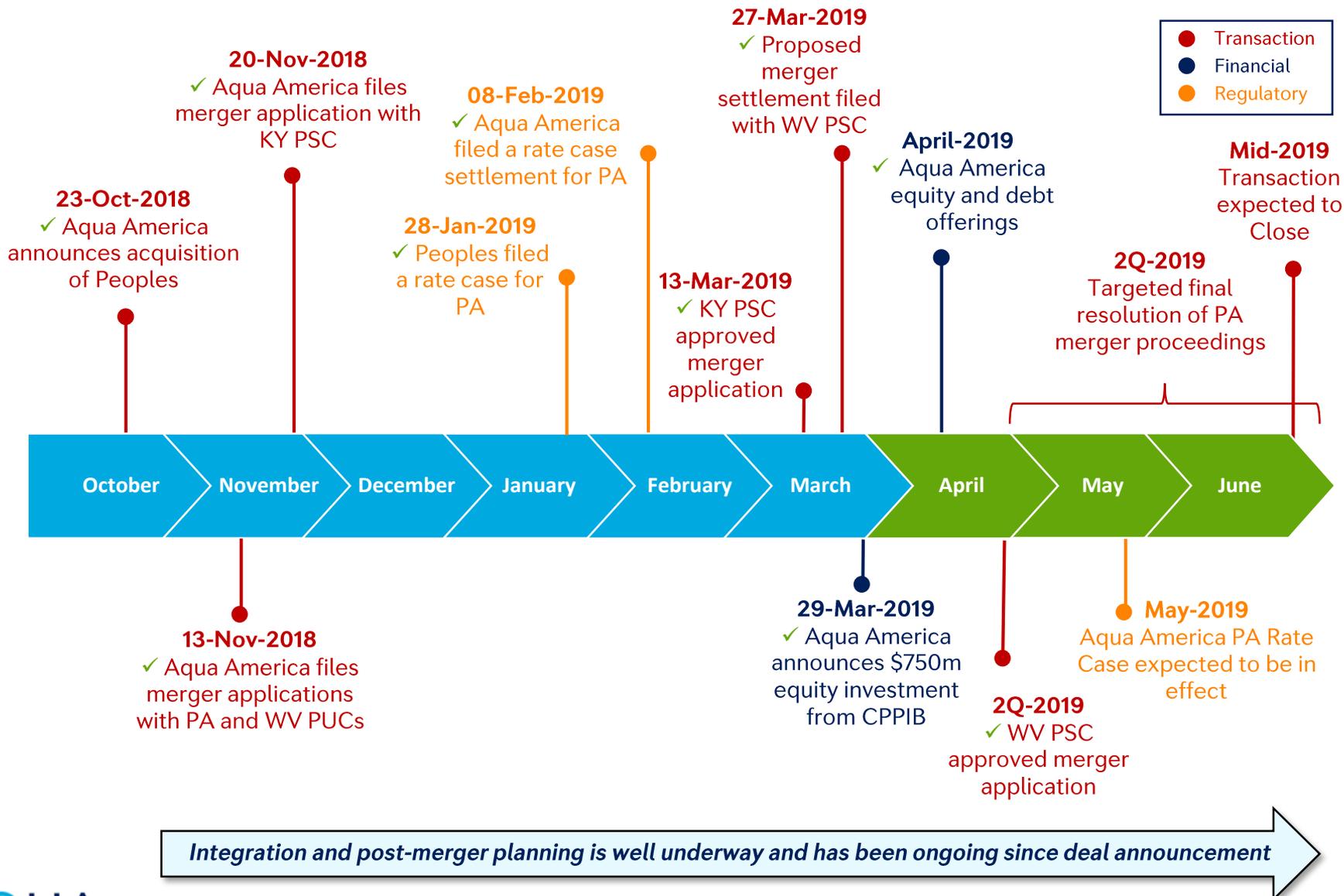


State	PA	KY
Mechanism	DSIC	PRP
Allowed Surcharge	5%	No cap

**Note(s):** DSIC refers to 'Distribution System Improvement Charge'. WSSIC refers to 'Water and Sewer System Improvement Charge'. QIPS refers to 'Qualifying Infrastructure Plant Surcharge'. PRP refers to natural gas 'Pipeline Replacement Program'.

<sup>1</sup> Represents expected compound annual growth from 01-Jan-2019 through 31-Dec-2021 based on capex, depreciation and rate base assumptions.

# Timeline / Transaction Status



# Guidance



Chris Franklin

Chairman, Chief Executive Officer and President

# 2019 Aqua Stand-Alone Guidance

Excluding Peoples transaction-related items and earnings impacts from Peoples post-closing



- Adjusted income of \$1.45 to \$1.50 per share
- Infrastructure investments of approximately \$550 million in 2019 for communities served by Aqua
- Infrastructure investments of approximately \$1.4 billion through 2021 in existing operations to rehabilitate and strengthen systems
- Rate base growth of 7 percent per year through 2021
- Total customer growth of between 2 and 3 percent
- Closing of Peoples acquisition expected in mid-2019

# Summary

- ✓ Peoples acquisition regulatory approval on track for mid-year closing
- ✓ Peoples equity and debt financing successfully completed
- ✓ Aqua PA rate case settlement nearing regulatory approval with rates to go into effect in May
- ✓ Strong municipal acquisition pipeline in development for 2019 and longer term
- ✓ On track for record infrastructure investment in 2019

# Q&A Session

Aqua America



# Thank You for Attending Aqua's First Quarter 2019 Conference Call

**Second Quarter 2019 Earnings  
Conference Call and Webcast**  
Wednesday, August 7, 2019

**For more information contact:**

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# Appendix

Aqua America



# GAAP to non-GAAP Reconciliation

Quarter Ended  
March 31,

	<u>2019</u>	<u>2018</u>
Net income (GAAP financial measure)	\$16,924	\$50,839
<u>Plus:</u> transaction-related expenses for the Peoples transaction	41,428	
<u>Less:</u> tax effect	(8,628)	
Adjusted income (non-GAAP financial measure)	\$ 49,724	\$50,839
Net income per common share (GAAP financial measure):		
<i>Basic</i>	\$ 0.09	\$ 0.29
<i>Diluted</i>	\$ 0.09	\$ 0.29
Adjusted income per common share (non-GAAP financial measure):		
<i>Basic</i>	\$ 0.28	\$ 0.29
<i>Diluted</i>	\$ 0.28	\$ 0.29
Average common shares outstanding :		
<i>Basic</i>	178,213	177,801
<i>Diluted</i>	178,552	178,238

# Aqua 2019 Rates and Surcharges Completed

As of May 2, 2019

State	Docket Number	Type	Awarded Annualized Revenue Increase (\$thousands)
Illinois	N/A	Surcharge (w)	\$1,394
	N/A	Surcharge (ww)	\$268
Ohio	89-7028-WW-TRF	Rate Cases (w)	\$974
	18-0337-WW-SIC	Surcharge (w)	\$2,267
Pennsylvania	M-2018-3006585, M-2018-3006634, M-2019-3008029, M-2019-3008681, M-2019-3008713	Surcharges (w & ww)	\$2
<b>Total</b>			<b>\$4,905</b>

# Aqua 2019 Rates and Surcharges Pending

As of May 2, 2019

State	Docket Number	Type	Requested Annualized Revenue Increase (\$thousands)
New Jersey	WRT18121351	Rate Case (w)	\$7,202
North Carolina	W-218, Sub 497A	Surcharge (w)	\$602
	W-218, Sub 497A	Surcharge (ww)	\$62
Ohio	18-1843-WW-UNC & 18-1841-ST-UNC	Tax Compliance Surcharge	(\$3,917)
	19-567-WW-SIC	Surcharge (w)	\$2,335
Pennsylvania*	R-2018-3003558	Rate Case (w)	\$58,299
	R-2018-3003561	Rate Case (ww)	\$13,470
		<b>Total</b>	<b>\$78,053</b>

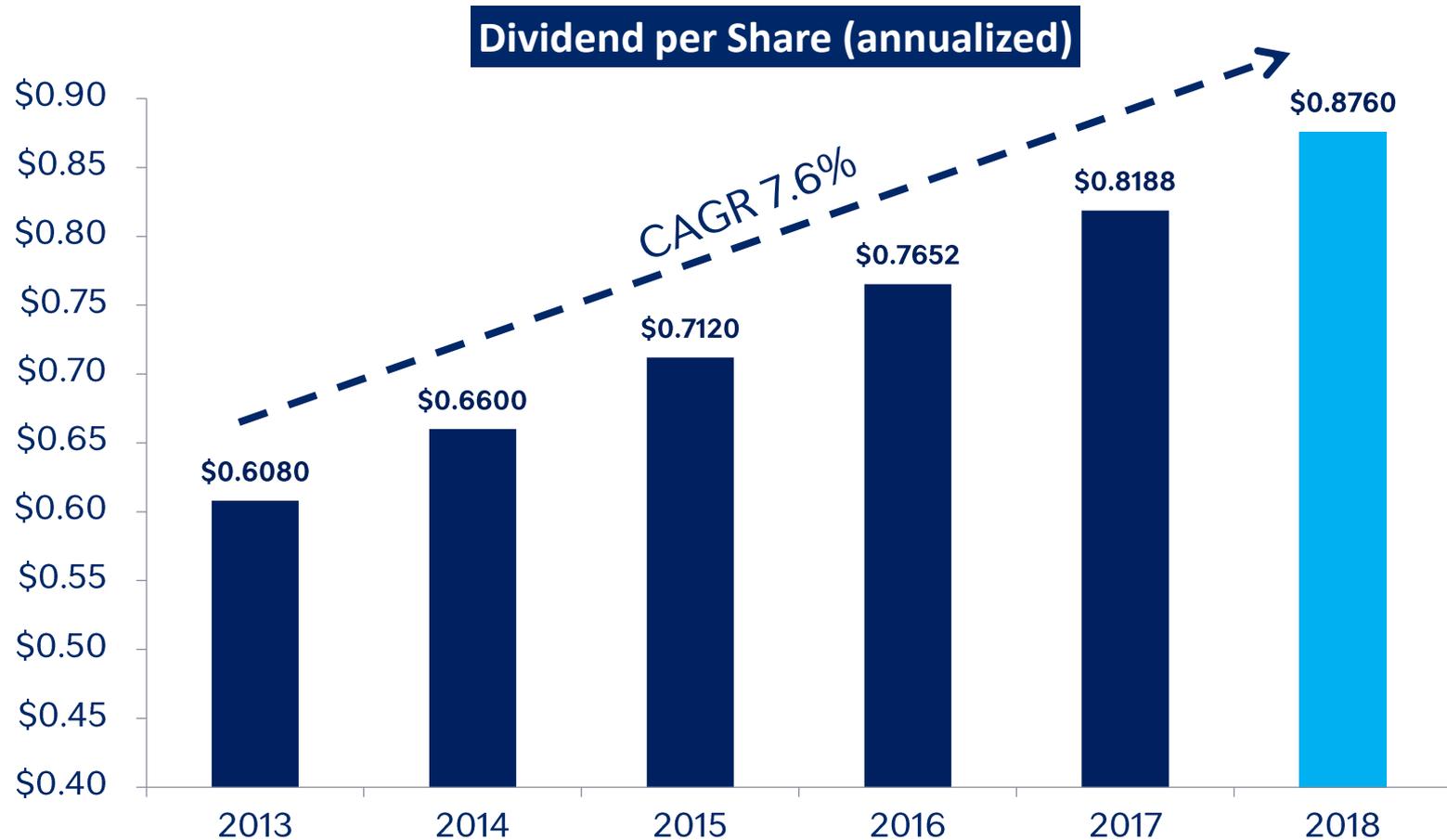
Note: Rates and Surcharges differentiated by water (w) and wastewater (ww) systems.

\*Joint settlement agreement reached and pending approval with approximately \$47 million in annual incremental revenue.

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

# Dividend Increase History

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



# State by State Comparison

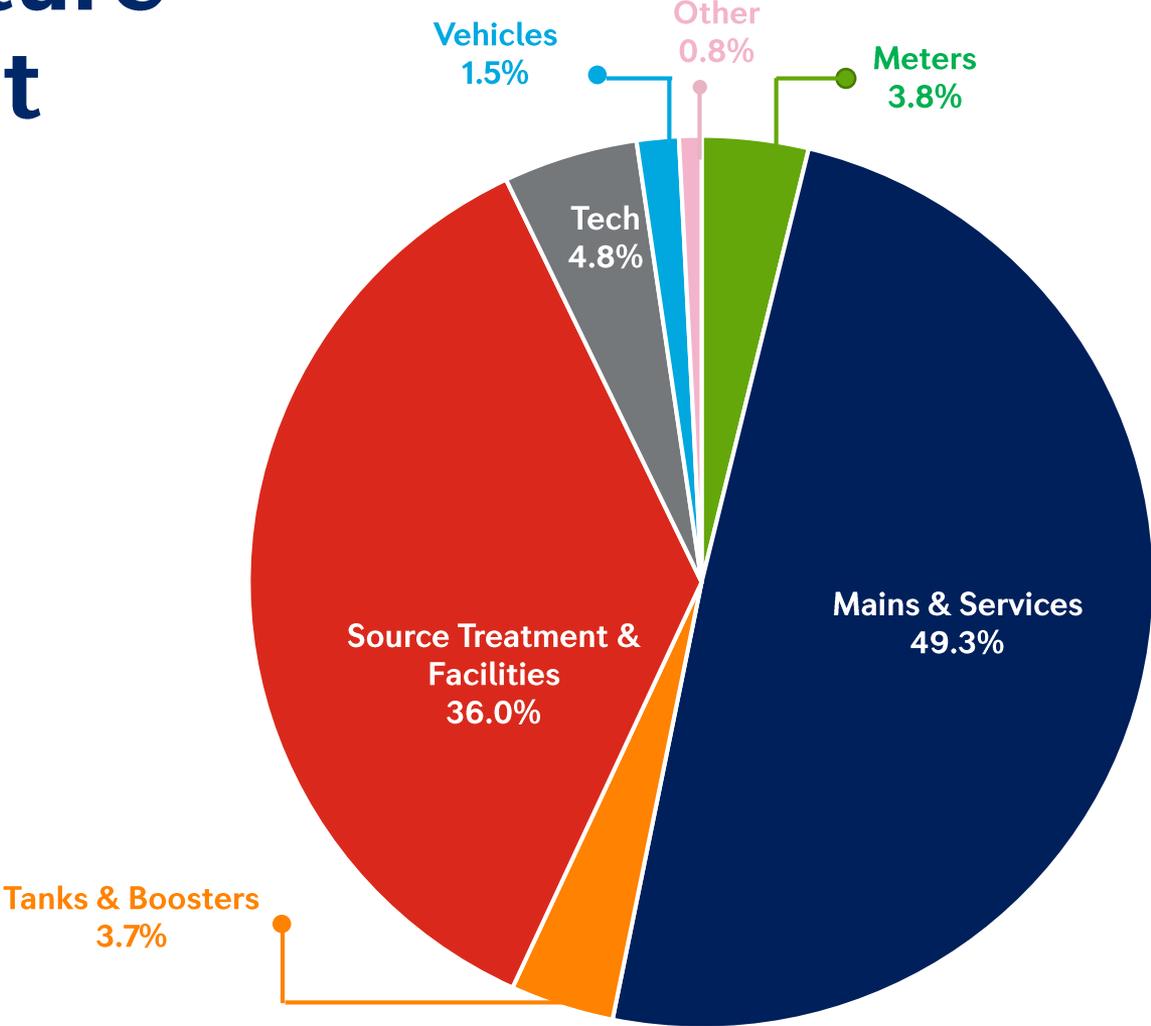
As of December 31, 2018

State	Rate Base (\$thousands)	Water Connections	Wastewater Connections	Total Customers
PA	3,095,126	440,487	28,115	468,602
OH	317,168	145,938	6,878	152,816
IL	320,002	65,214	15,222	80,436
TX	234,569	64,360	17,480	81,840
NJ	171,113	53,639	6,213	59,852
NC	203,761	81,074	19,114	100,188
IN	82,622	1,226	26,979	28,205
VA	75,047	25,843	7,787	33,630
<b>Total</b>	<b>4,499,408</b>	<b>877,781</b>	<b>127,788</b>	<b>1,005,569</b>

# Infrastructure Investment

Regulated Operations

Capital Investment Breakdown 2019 - 2021



3 Year Total = \$1.4 billion

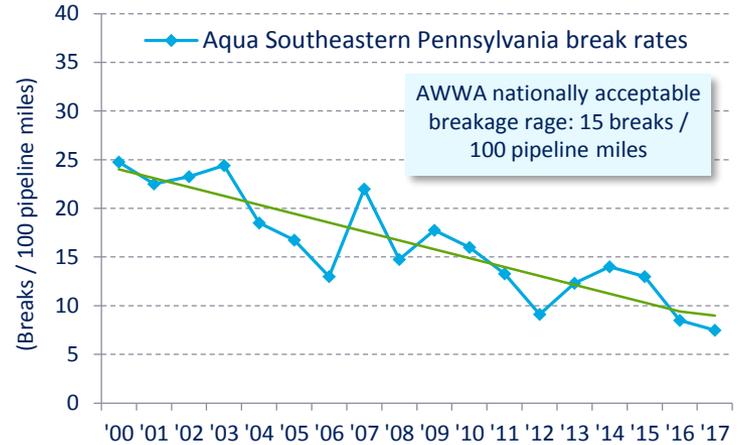
# Aqua and Peoples' Commitment to Safety and Sustainability

## Aqua

- Issued inaugural Corporate Social Responsibility Report in 2018
- Participated in Carbon Disclosure Project (CDP) Survey and received a strong first-time score of C in the "Awareness" level in the top 40% of CDP companies
- Main break average steadily declining and below acceptable range, substantially reducing unaccounted-for water
- Reported record safety metrics including steadily declining lost time injury rate, lost work days and OSHA injury rate
- Compliance for drinking water and wastewater continued to improve to record levels



## Aqua Southeastern Pennsylvania Main Break Averages



## Peoples

- Environmental Defense Fund Partnership aims to reduce Pittsburgh pipeline emissions by 50%
- Founding partner of U.S. EPA Star Methane Challenge Program making specific commitments to reduce methane emissions
- Key operating safety metrics in top quartile of industry peers and steadily improving
- Largest pipe replacement program in company history (LTIP) significantly reducing operating risk and emissions
- Locally produced natural gas supply reduces environmental impact of transportation and lowers customer bills



## Peoples Safety Compared to Natural Gas Industry

