

Aqua America

2017 Full Year Earnings Report & Analyst Update

AQUASM
NYSE: WTR



February 28, 2018

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

Today's Presenters



Christopher Franklin

Chairman, Chief Executive Officer and President



Dave Smeltzer

Executive Vice President & Chief Financial Officer



Rick Fox

Executive Vice President & Chief Operating Officer



Kim Joyce

Vice President, Regulatory, Government and External Affairs



Dan Schuller

Executive Vice President, Strategy & Corporate Development



Brian Dingerdissen

Vice President, Chief of Staff & Investor Relations

Introduction

Christopher Franklin

Chairman, Chief Executive Officer and President



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Today's Agenda

- Company Overview
- Financial Update
- Operations Overview
- Legislative and Regulatory Update
- Growth Strategy Update
- Summary and Outlook

Company Overview



- **Large multi-state water & wastewater company**
- **Proven growth model**
- **History of industry leading profitability**
- **Above average dividend growth**

U.S. Regulated Water and Wastewater Industry Overview



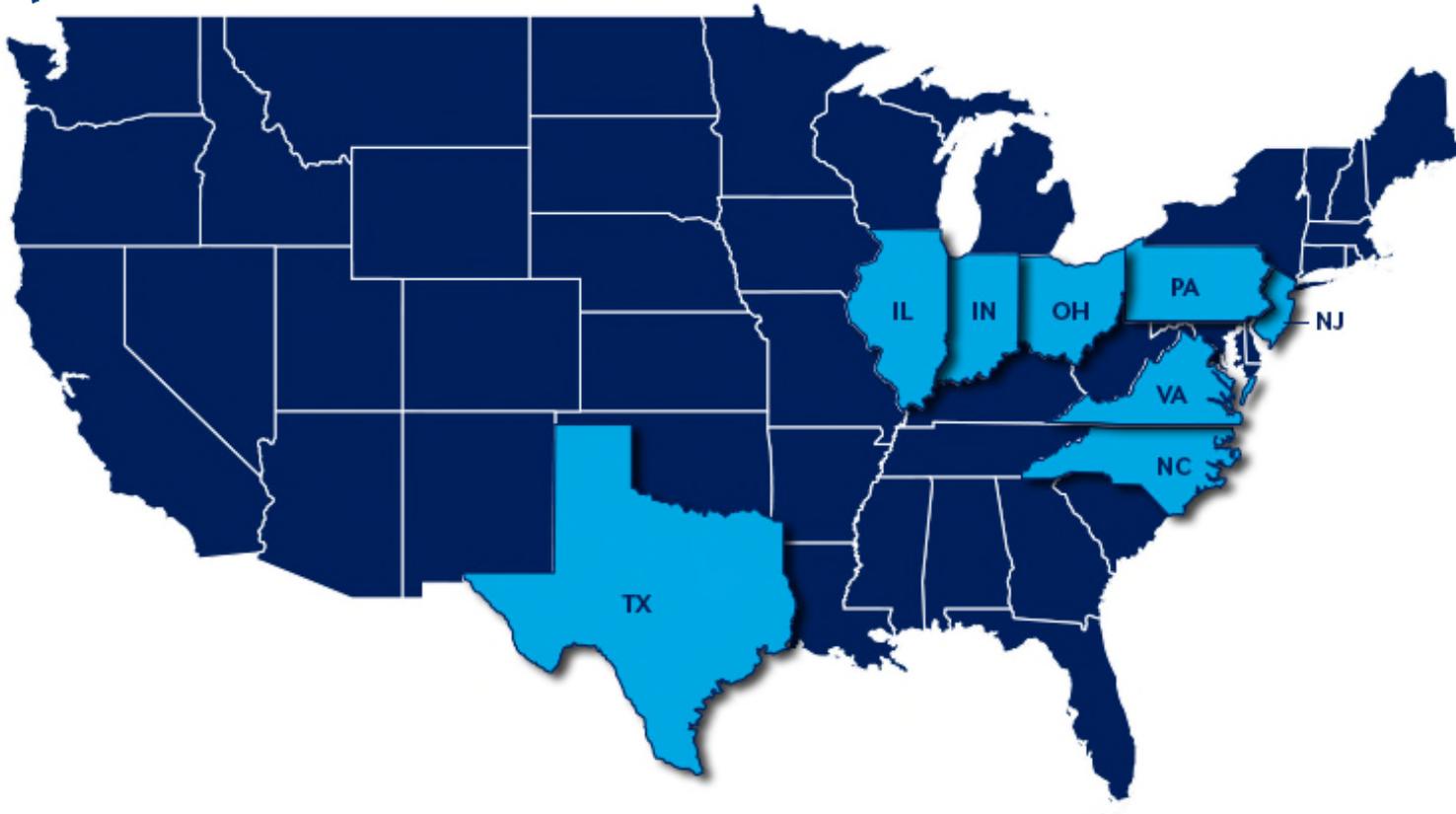
Water

- 53,000 systems in the U.S.
- 85% of U.S. population served by municipalities
- Aqua serves 1% of U.S. population



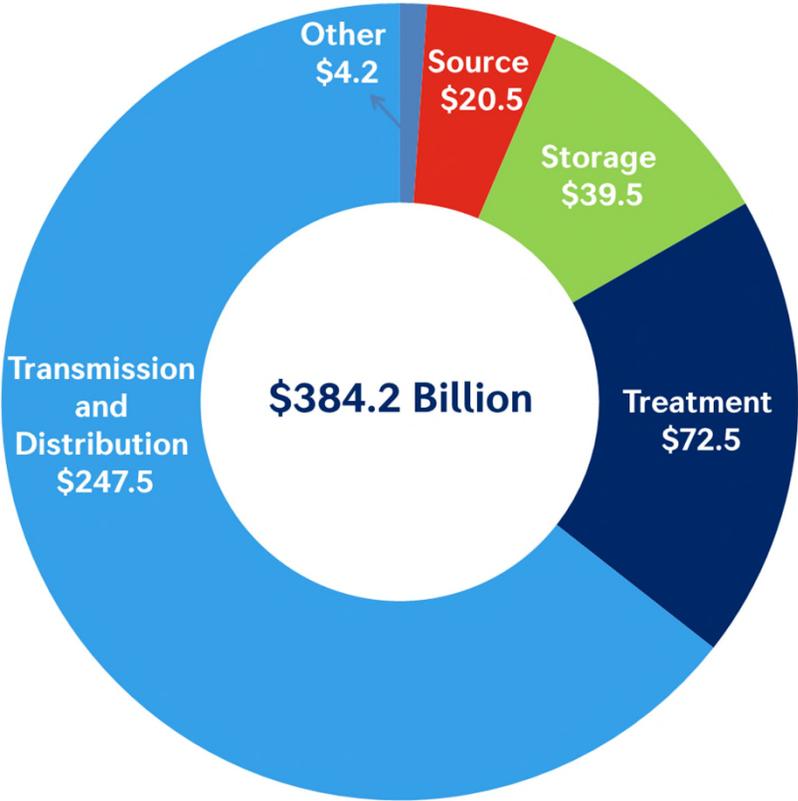
Wastewater

- 16,000 systems in the U.S.
- 97% of U.S. population served by municipalities
- Aqua serves 0.1% of U.S. population



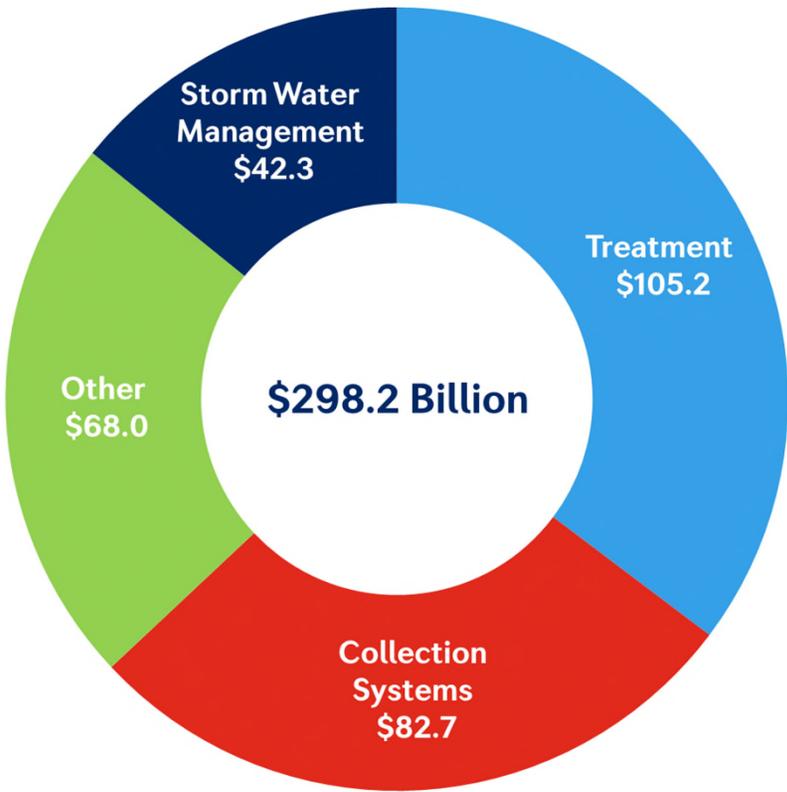
EPA's Estimate of the National Need for Infrastructure Investment

Water



Source: 2013 EPA Needs Survey

Wastewater



Source: 2013 ASCE Infrastructure Report Card

American Society of Civil Engineers Grade for Drinking Water and Wastewater Infrastructure = D

2017 Full Year Highlights

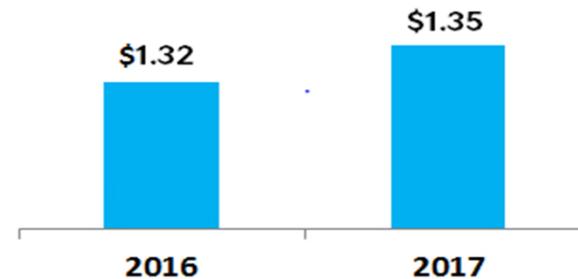
Acquisitions

- Four water and wastewater deals representing over 1,000 new customers
- Municipal pipeline expands with six pending acquisitions due to close in 2018

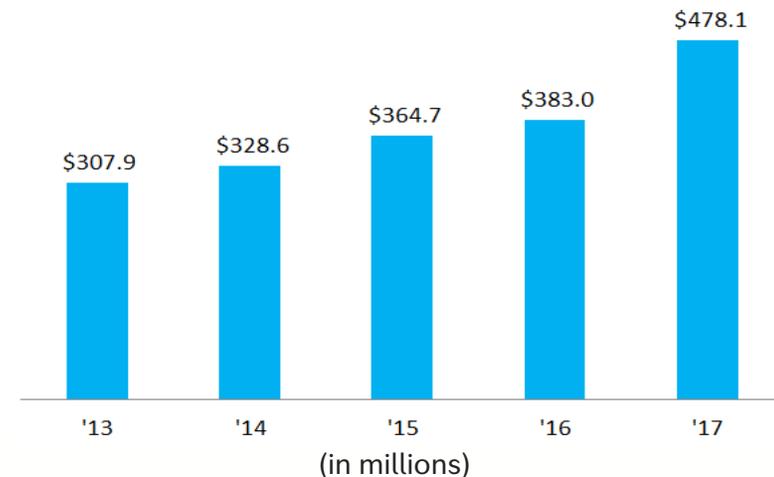
Dividend Growth

- 7% year-over-year dividend growth
- 73 years of consecutive years of quarterly dividends
- Dividend CAGR of 7.9% since 2012

Net Income Per Share



Infrastructure Investment



Financial Update

Dave Smeltzer

Executive Vice President and Chief Financial Officer



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2017 Full Year Financial Results

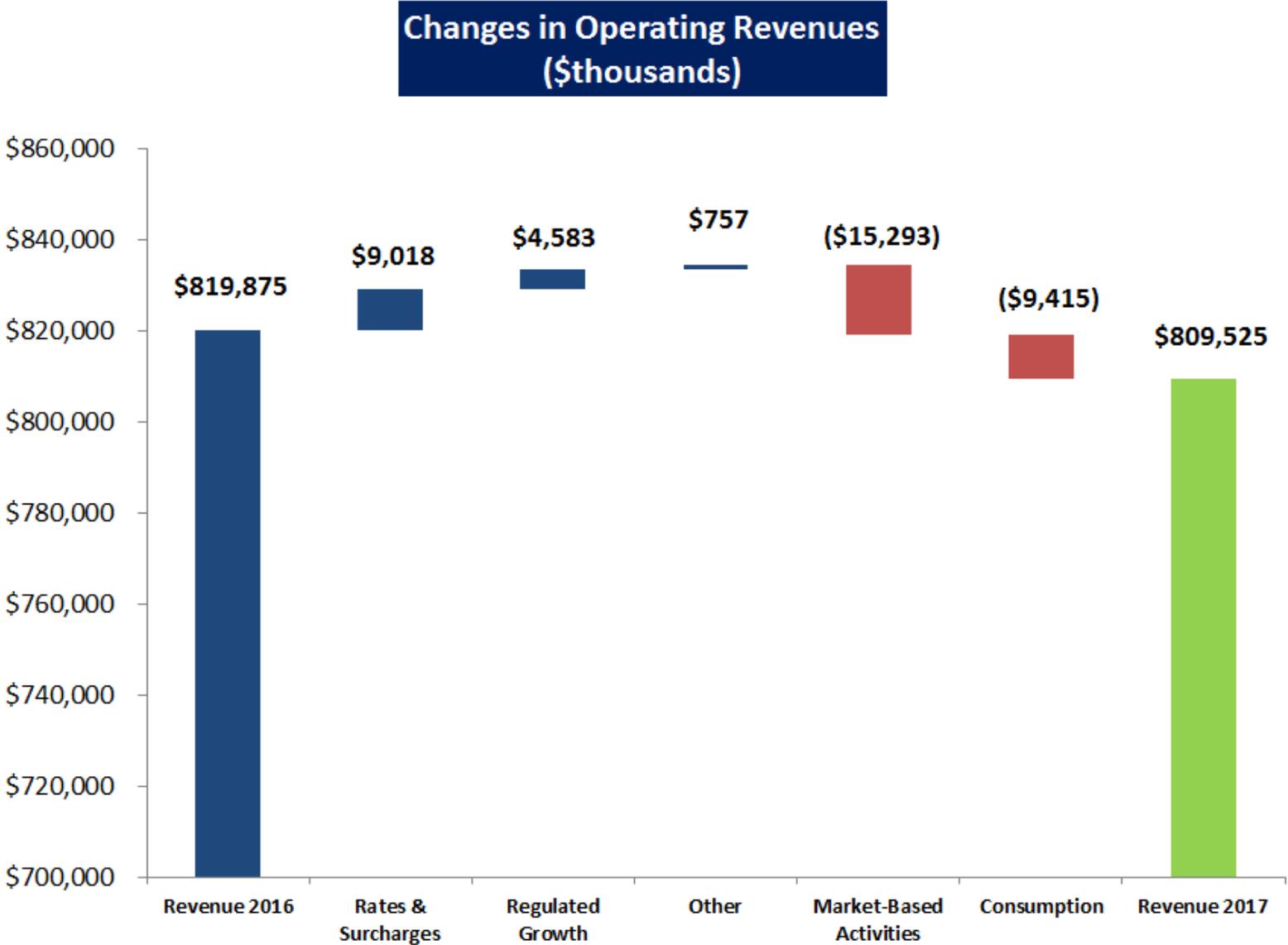
In millions except per share	FY 2017		FY 2016	Variance
Revenue	\$809.5	▼	819.9	(1.3%)
Regulated Segment Revenue	\$804.9	▲	\$800.1	0.6%
Operations and Maintenance Expense	\$287.2	▼	\$304.9	(5.8%)
Regulated Segment Operations and Maintenance Expense	\$287.0	▲	\$285.3	0.6%
Net Income	\$239.7	▲	\$234.2	2.4%
Net Income per Share	\$1.35	▲	\$1.32	2.3%

 Favorable Change

 Unfavorable Change

Operating Revenues

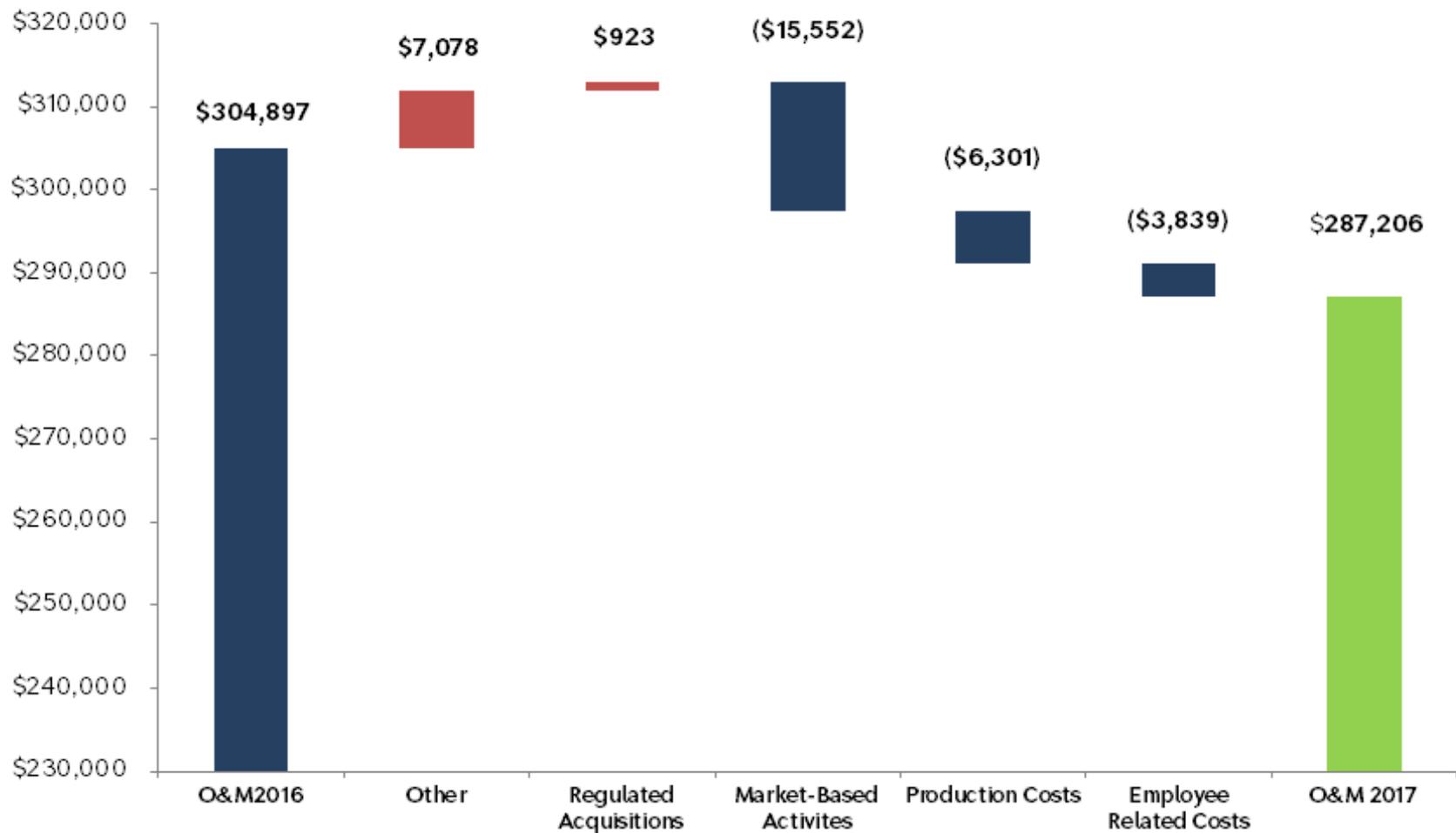
FY 2017 vs. FY 2016



Operations & Maintenance Expenses

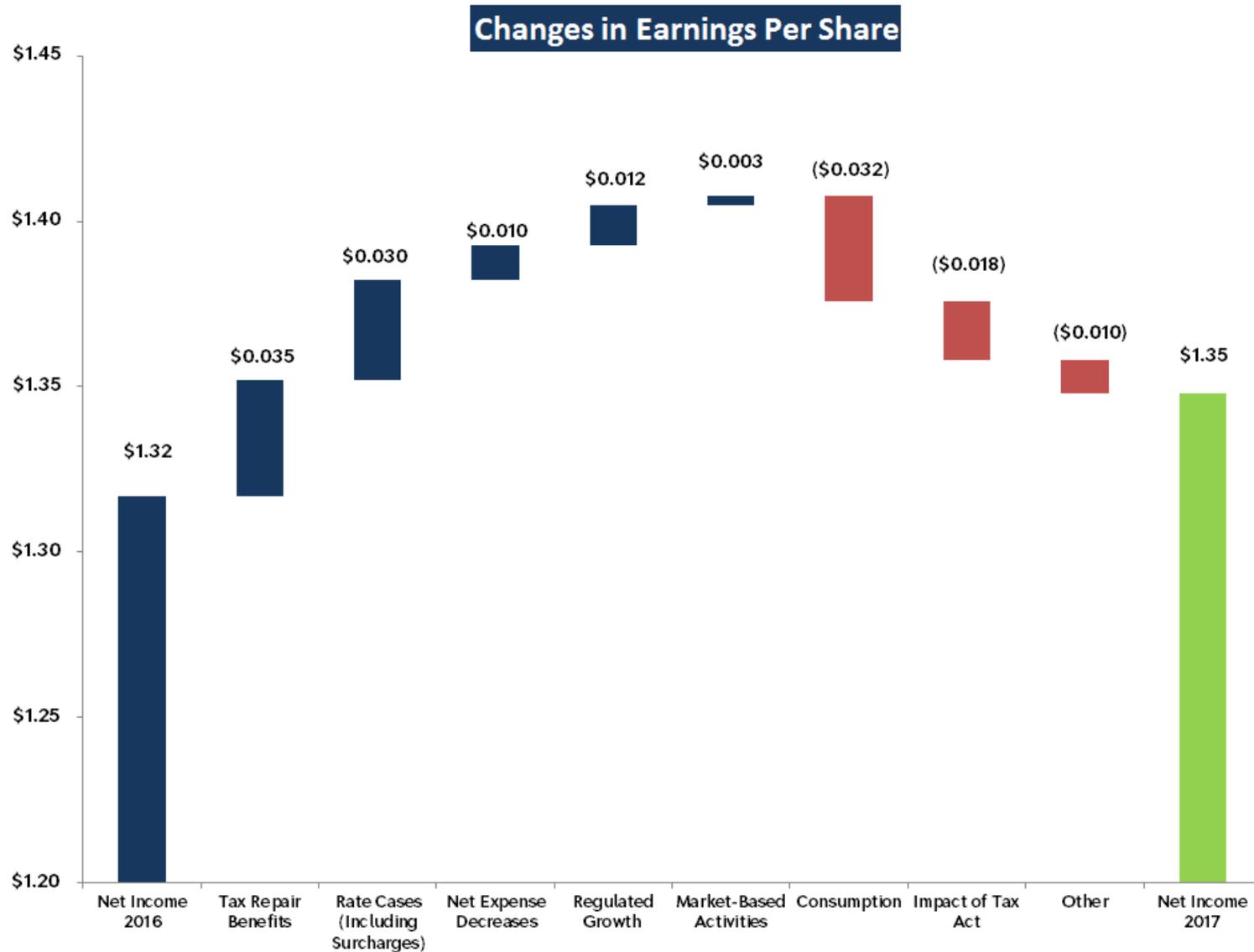
FY 2017 vs. FY 2016

**Changes in Operations and Maintenance Expenses
(\$thousands)**



Earnings per Common Share

FY 2017 vs. FY 2016



Tax Reform Implications

2017

- Write-off of \$3.1M
 - Typically related to deferred comp, goodwill and deferred gains
- \$303 million Deferred Income Tax reclassified to Regulatory Liability
- Ultimately be refunded to customers

2018

- Tax savings typically being deferred for future return to customers
- Exceptions
 - Negative impact in PA due to NOL status
 - Positive impact in Market Based and negotiated / divisions

Accounting for Tax Reform

Accrue 21% for Federal Income Tax @ 1/1/2018



Remaining 14%, will be recorded as:

Reduction in Revenue (DR)

Recognition of Regulatory Liability (CR)



Regulatory Liability

To be refunded to customers based on specific state requirements

Change in Corporate Tax Rate

(Illustrative Example)

	35% Tax Rate	21% Tax Rate
Revenue	\$1.00	\$0.88
Expenses	\$(0.35)	\$(0.35)
Pre-Tax Income	\$0.65	\$0.53
<i>Federal Tax Rate</i>	<i>35%</i>	<i>21%</i>
Federal Income Tax	\$(0.23)	\$(0.11)
Net Income	\$0.42	\$0.42

Taxability of Capital Contributions (CAC / CIAC)

- Estimated \$27 Million in CAC/CIAC Additions
- Taxes estimated to be \$6 million
- Balance Sheet only
- Some states will recognize deferred tax asset in rate base

Key Benefits

- Reduces rates / bills without impacting profitability
- Helps comparability to municipal bills
- Reduces the future increases required related to Capital additions
- 7:1 projects become 8:1 projects
- Permits more system improvements in a typical 5% infrastructure surcharge

PA Rate Case Summary

Timeframe:

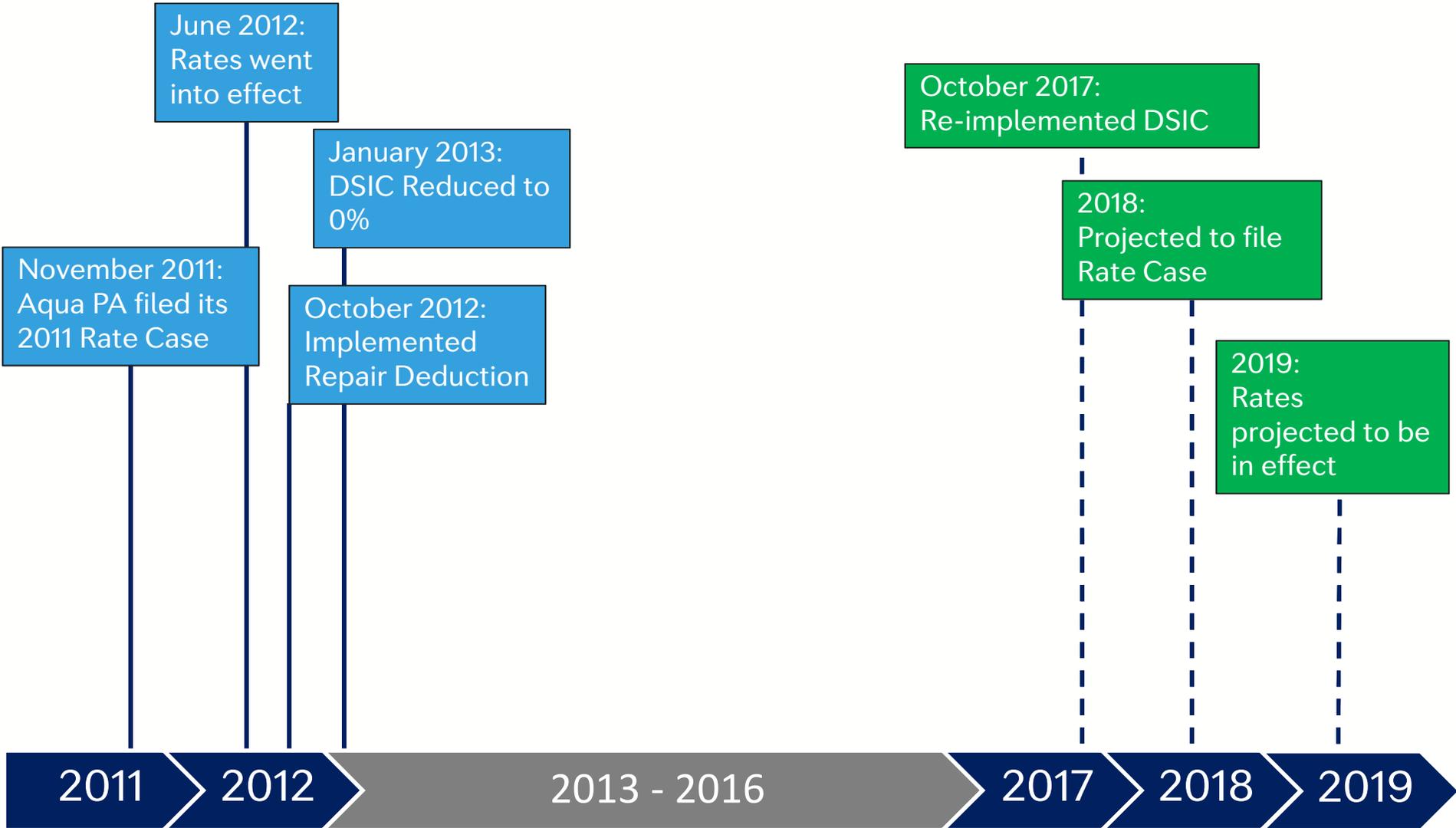
- File: Summer 2018
- Complete: Spring 2019

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.)	\$650,000
Total	\$2,014,532

PA Rate Case Summary



Rate Activity

2017 Completed Rate Cases and Infrastructure Surcharges

- Base rate cases or infrastructure surcharges completed in IN, IL, NJ, NC, PA, OH, and VA
- \$22 million in additional annualized revenue

2018 Completed Rate Cases and Surcharges

- Base rate cases or infrastructure surcharges completed in NC, OH and PA
- \$11 million in additional annualized revenue

*Additional rate activity information provided in Appendix

Rate Activity

(Continued from previous page)

Pending Rate Cases and Surcharges

- Base rate cases or infrastructure surcharges in IL, NJ and VA with requested annualized revenue increase of \$16 million

*Additional rate activity information provided in Appendix

Operations Overview

Rick Fox

Executive Vice President and Chief Operating Officer

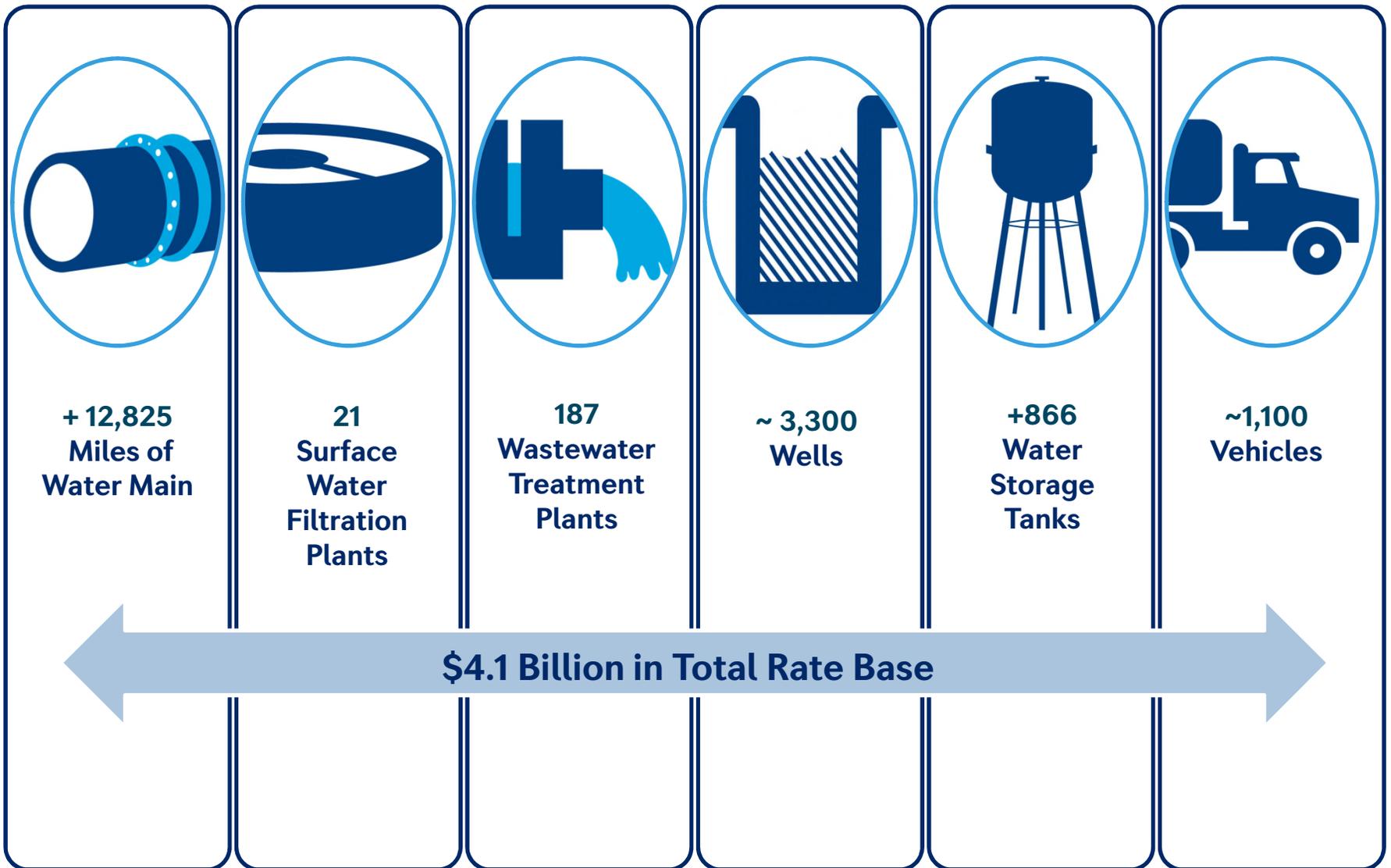


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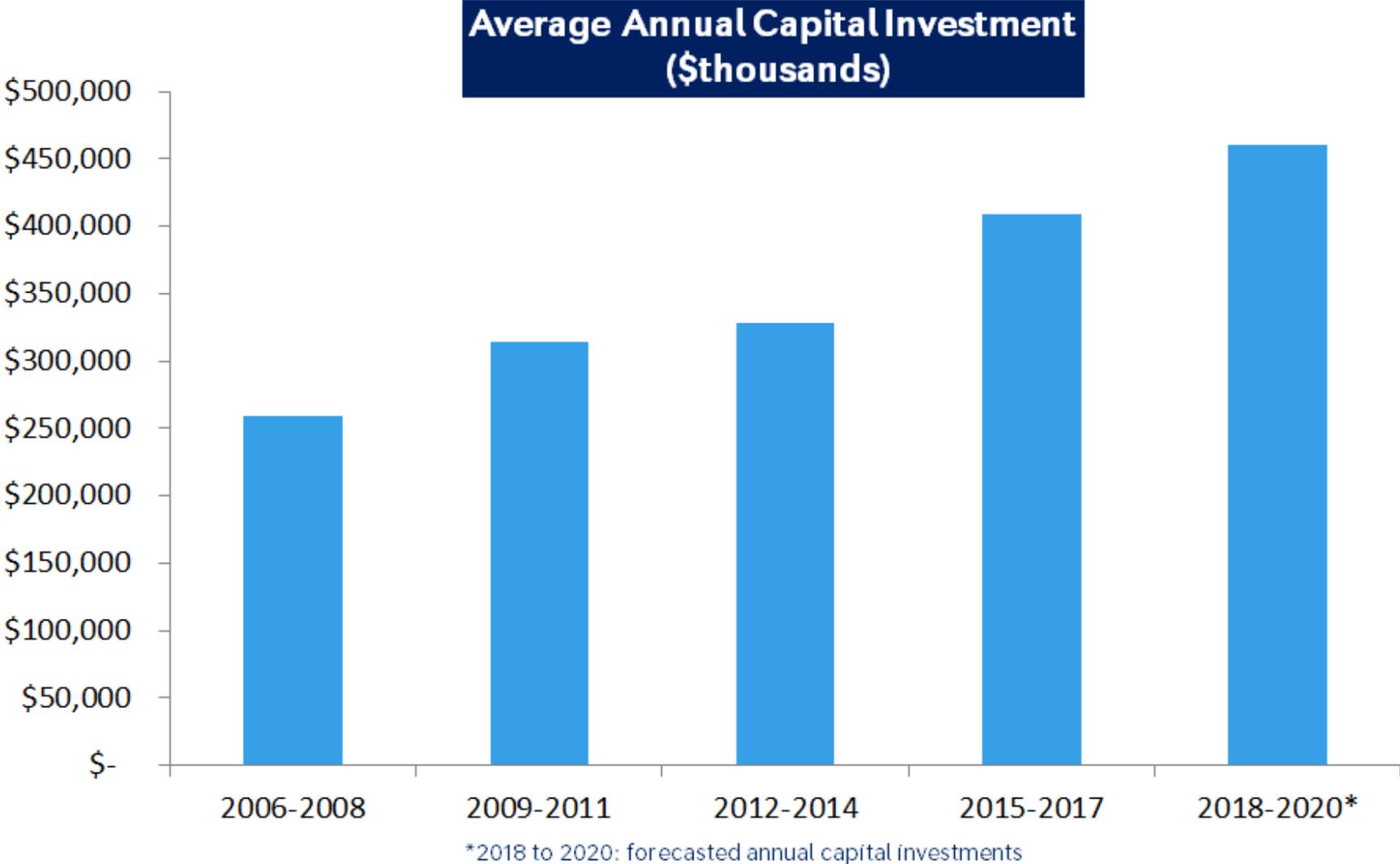
Infrastructure Footprint

as of December 31, 2017



Building for the Future

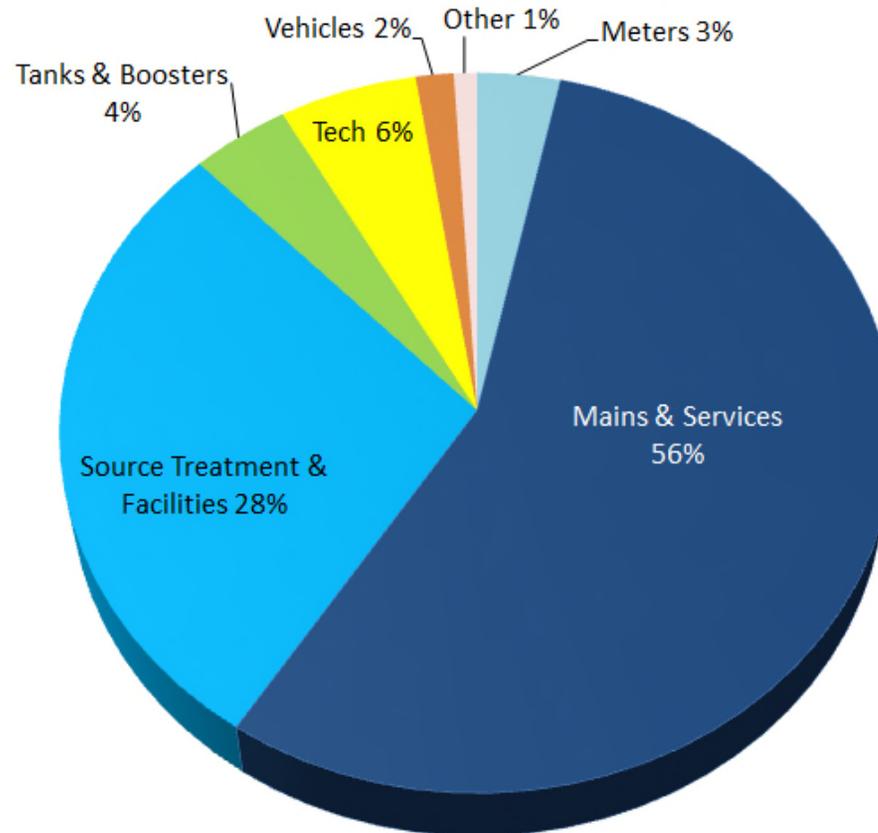
Regulated Operations



Infrastructure Investment

Regulated Operations

Capital Investment Breakdown 2018 - 2020



3 YEAR TOTAL= \$1.4 billion

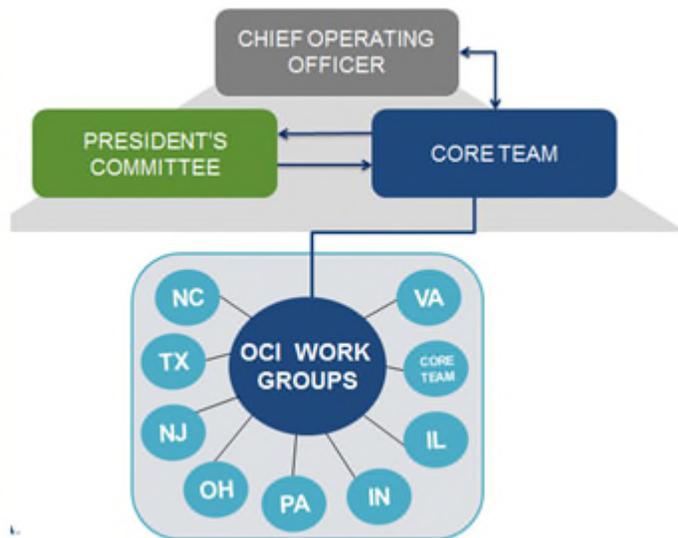
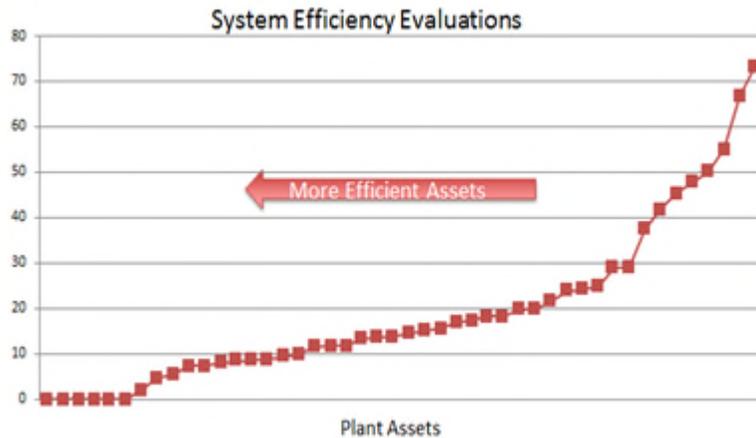
State by State Comparison

as-of December 31, 2017

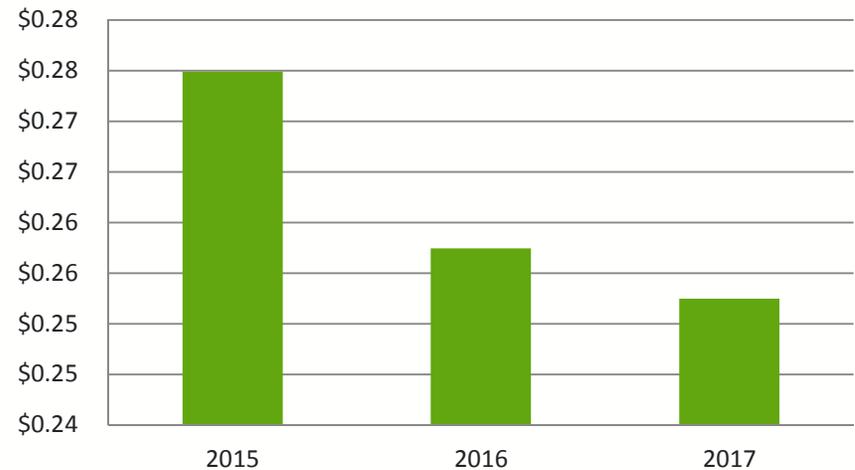
State	Rate Base (\$millions)	Water Connections	Wastewater Connections
PA	\$2,831	437,985	21,306
OH	287	145,000	6,719
IL	276	63,699	9,821
TX	241	63,046	16,869
NJ	172	53,115	6,125
NC	165	79,906	18,293
IN	74	1,169	26,371
VA	77	25,676	7,749
Total	\$4,123	869,596	113,253

Energy Optimization

- Reduce Costs
- Operational Excellence
- Increase Accountability



Aqua Pennsylvania Cost per 1000 Gallon Produced



Safety at Aqua



Legislative and Regulatory Update

Kim Joyce

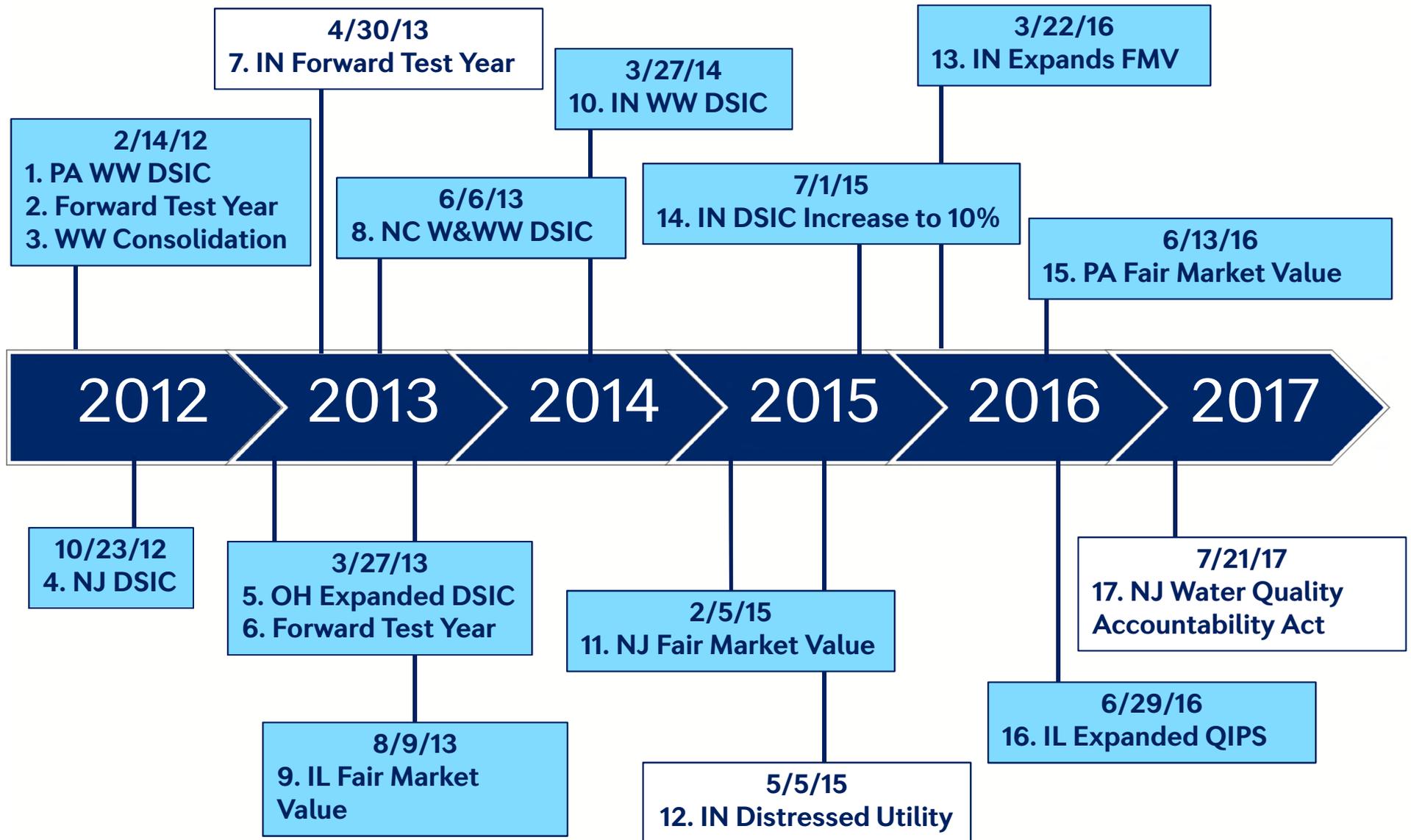
Vice President, Regulatory, Government and External Affairs



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Water & Wastewater Regulatory Trends



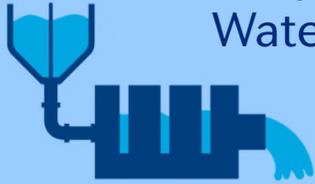
Aqua States with Infrastructure Surcharges

State	Allowed Surcharge
IL	2.5% Avg. Annual Increase
IN	10%
NC	5%
NJ**	5%
OH	12.75% water 9% wastewater
PA	7.5% water 5% wastewater

* 16 additional states have water infrastructure surcharges

** Water only

DSIC Applications

Then	Now		
 <p>Water Mains</p>	 <p>Water Mains</p>	 <p>Hydrants</p>	 <p>Meters</p>
 <p>Hydrants</p>	 <p>Filters</p>	 <p>Equipment Supporting Water Quality</p>	 <p>Valves</p>
 <p>Meters</p>	 <p>Wastewater Infrastructure</p>	 <p>Pumps</p>	

Benefits of Fair Market Value Legislation

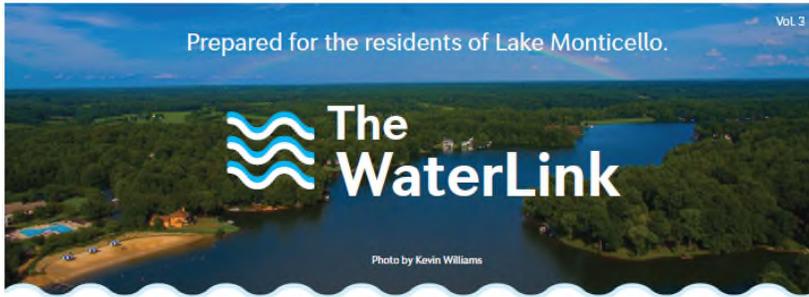
- Allows municipalities to receive fair value for their assets
- Provides municipalities with options for their aging systems
- Voluntary process
- Acquisitions approved by the state commission
- Increases regionalization of the water and wastewater industry

Success Snapshot!

Completed FMV Acquisitions in IL

North Main (Water)	\$18,590,000
North Main (Wastewater)	\$3,410,000
Crystal Clear (Water)	\$785,000
Eastwood Manor (Water)	\$785,000
Nunda Utilities (Water)	\$715,000

Customer Communications



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Follow

Have you explored our tips for living a #WaterSmart life? There are ways to reduce #water usage around every corner: bit.ly/1gGF3VP



Infrastructure, Operating Costs Drive Rate Request

In the last two years, Aqua Virginia has spent about \$3.3 million in the Lake Monticello community on capital improvements to provide and improve water and wastewater services to customers while complying with health and environmental regulations. Aqua filed

Water is Essential



AQUA Blog

<< Water Conservation: Back to School Edition | Aqua Leadership Travels to Panama to Provide Water Quality Expertise >>

Imagine a Day Without Water: Creating Awareness for Our Most Valuable Resource

September 14th, 2016 2:12 PM

Comments (0)



Helping Communities & Employees Enjoy More Good!



Growth Strategy Update

Dan Schuller

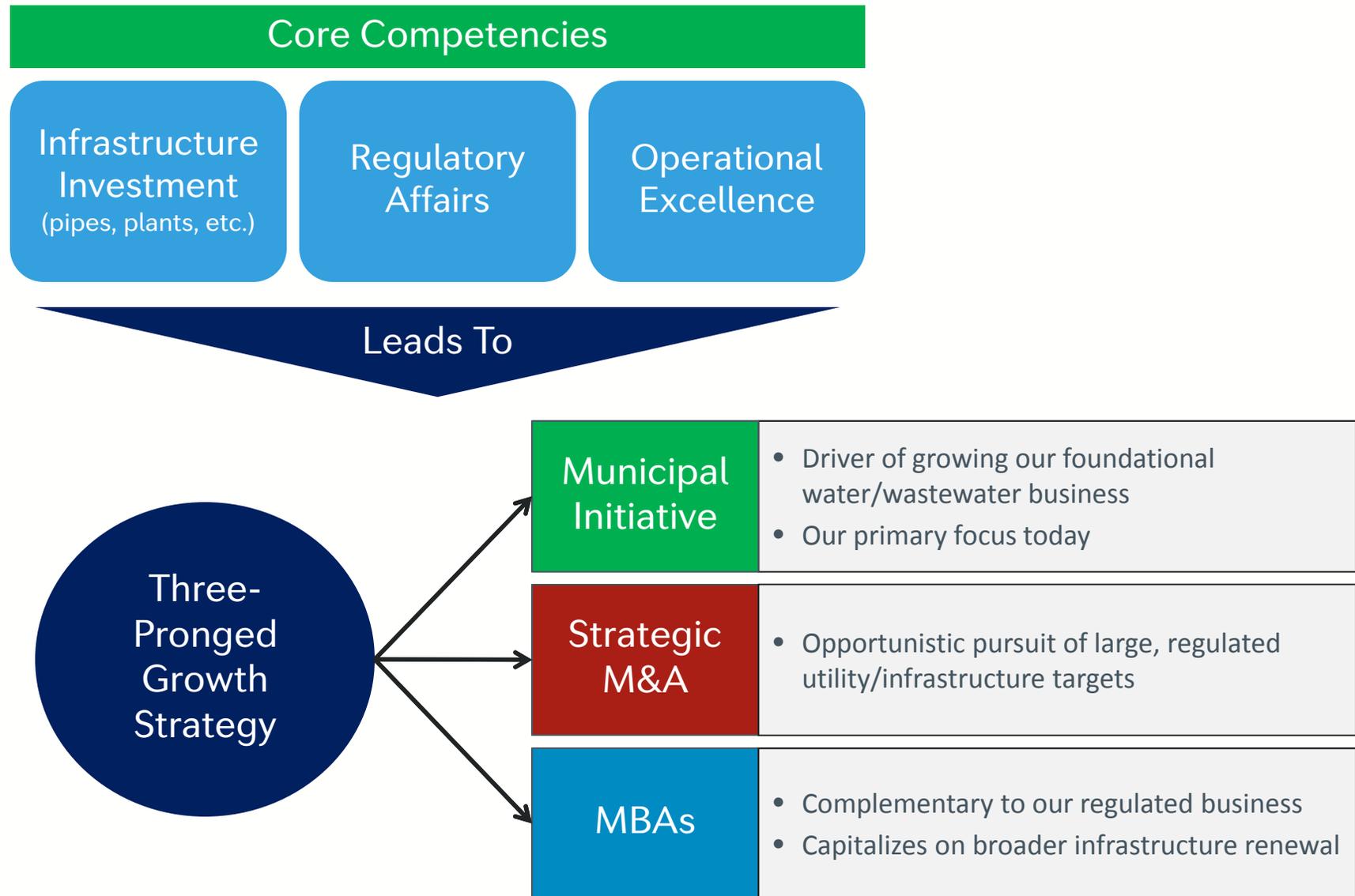
Executive Vice President, Strategy and Corporate Development



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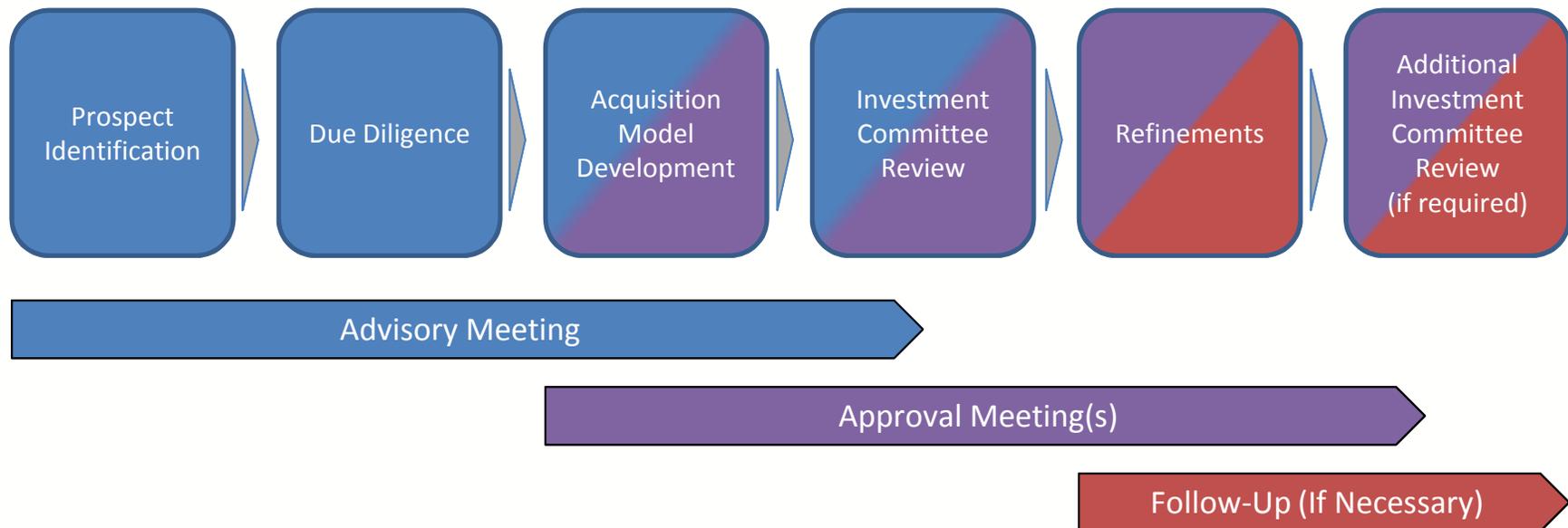
Aqua America Growth Strategy



Aqua America Investment Committee

Our Investment Committee (IC) process is a “well-oiled machine” through which the company’s executives review, shape, and approve/reject acquisition opportunities.

“Kitchen Cabinet” Meeting: Prior to presenting to full IC, states use the “Kitchen Cabinet” for guidance

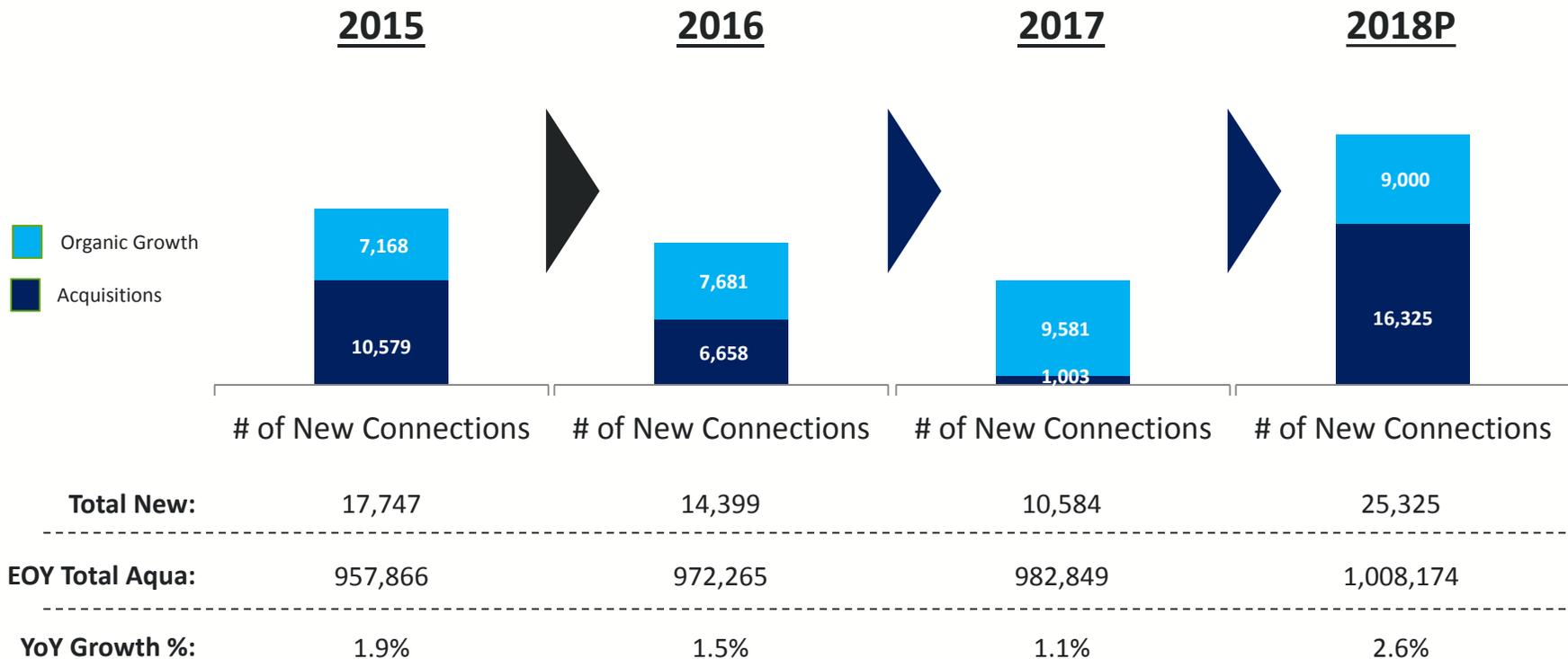


2017 Total Activity

- **Number of “Kitchen Cabinet” Meetings:** 11 meetings
- **Number of IC Meetings and Follow-Up Calls:** 21 regularly scheduled and 7 follow-up meetings to further assess acquisitions
- **Total potential acquisitions reviewed:** 37

Historical Growth Performance

If we include our 2018 projections, from 2015 to 2018, we will average a total of ~17,000 new customers per year, with an average of ~8,600 from acquisitions.



Two transactions that were expected to close in 2017 shifted to 2018.

2018 Municipal Acquisition Activity

We have six municipal acquisitions that are signed and slated to close in 2018.

Acquisition ¹	Type	Approx. Number of Customers	Approx. Purchase Price (\$000s)
<i>Expected to Close in 2018</i>			
System A	WW	5,400	\$75,100
System B	WW	2,100	\$29,500
System D	W	600	\$3,600
System E	W / WW	2,987	\$12,300
System F	WW	3,838	\$25,200
System G	WW	1,400	\$5,000
Total		16,325	\$150,700

1) System C (Tobyhanna, PA) closed in 2017

Large Municipal Acquisitions in Development

Our 10 largest municipal potential acquisitions total over 289,000 connections.

Target	Approx. # of Customers	Type
System 1	85,000	W
System 2	50,000	W
System 3	45,000	W
System 4	30,000	W / WW
System 5	25,000	W / WW
System 6	25,000	WW
System 7	10,000	WW
System 8	8,000	W / WW
System 9	7,000	WW
System 10	4,600	WW
Total	289,600	-

These large targets are in four of our states.

Summary and Outlook

Christopher Franklin

Chairman, Chief Executive Officer and President



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2018 Guidance

Earnings

- Full-year earnings per share between \$1.37 – \$1.42

Capex

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

Rate Activity

- Aqua Pennsylvania, expects to file a rate case in 2018

Customer Growth

- Customer growth of 2 to 3% year-over-year

Q&A Session



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For more information contact:
Brian Dingerdissen
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BJDingerdissen@AquaAmerica.com

Appendix



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2017 Fourth Quarter Financial Results

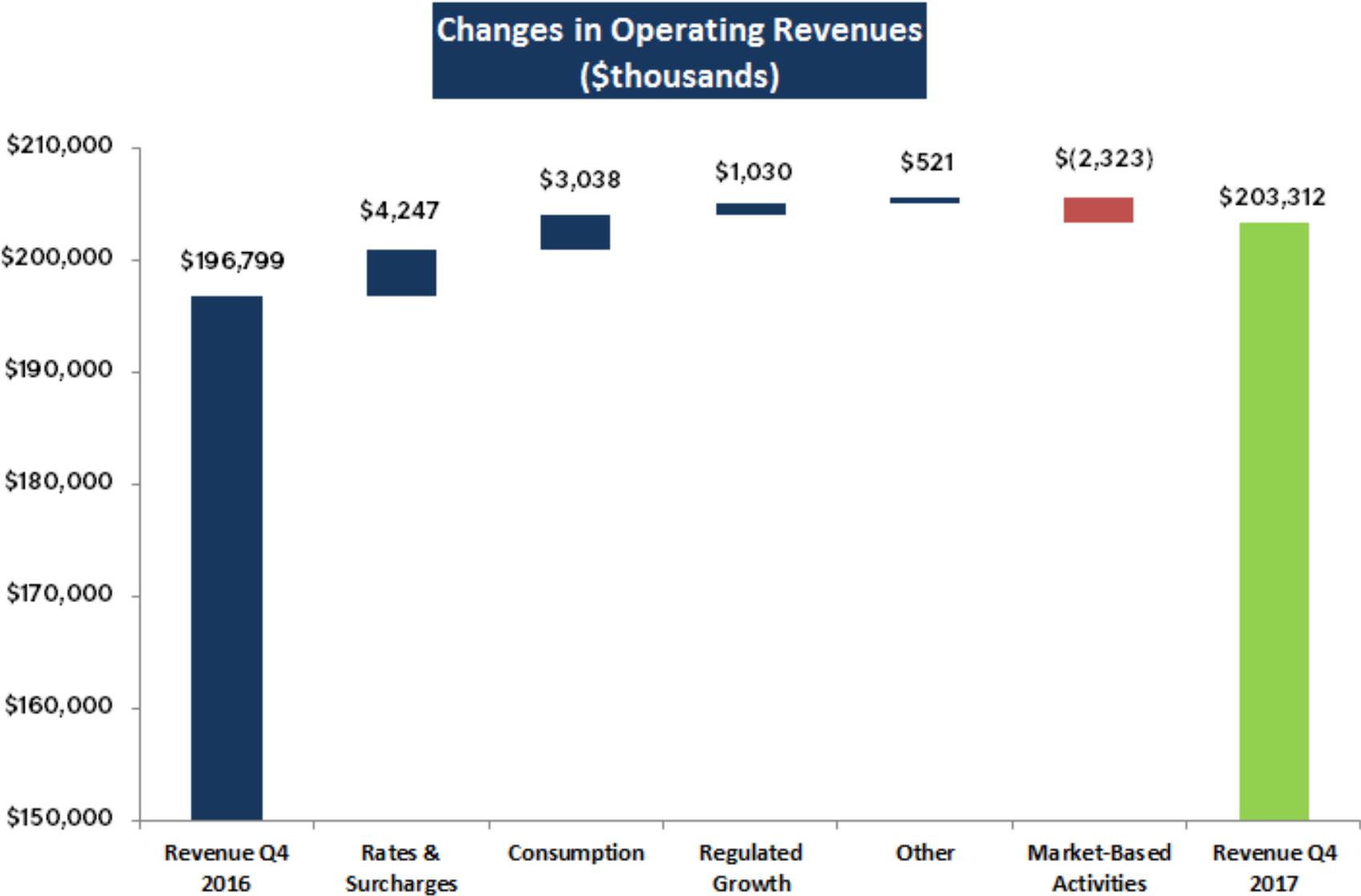
	In millions except per share	Q4 2017	Q4 2016	Variance
Revenue		\$203.3	▲ \$196.8	3.3%
Regulated Segment Revenue		\$202.6	▲ 193.8	4.5%
Operations and Maintenance Expense		\$79.2	▲ \$77.6	2.2%
Regulated Segment Operations and Maintenance Expense		\$80.7	▲ \$75.3	7.2%
Net Income		\$53.5	▲ \$49.6	7.7%
Net Income per Share		\$0.30	▲ \$0.28	7.1%

▲ Favorable Change

▲ Unfavorable Change

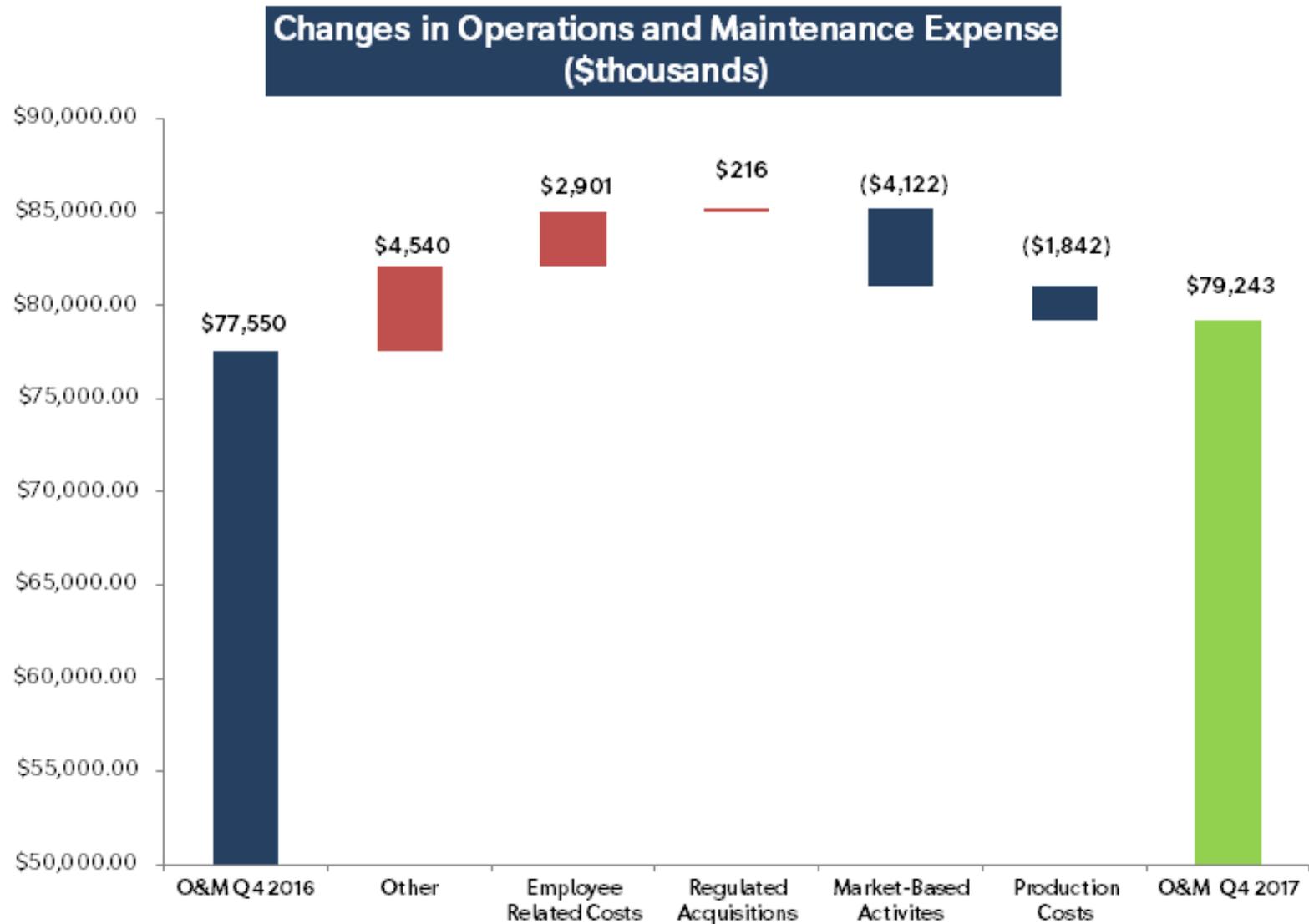
Operating Revenues

Q4 2017 vs. Q4 2016



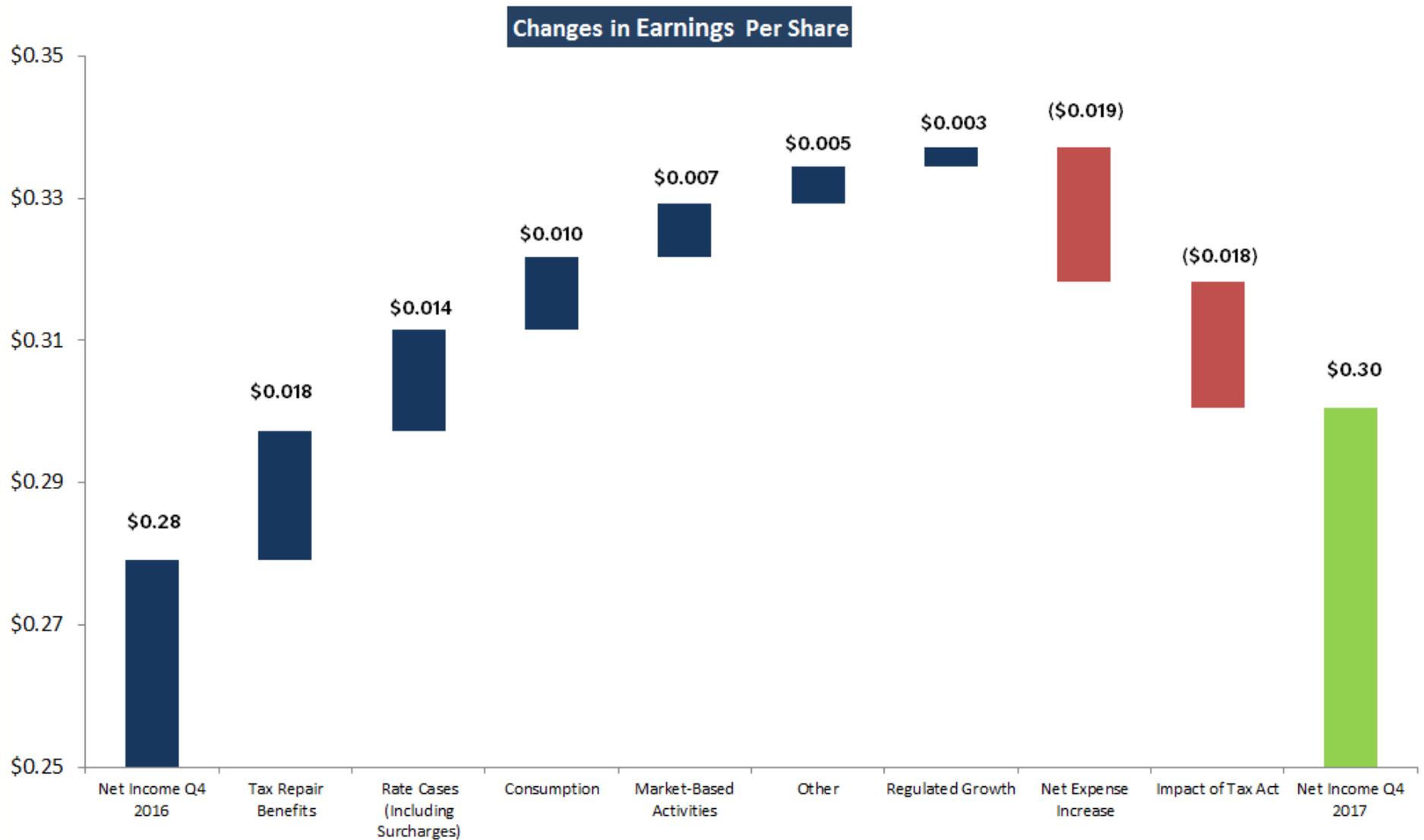
Operations & Maintenance Expenses

Q4 2017 vs. Q4 2016



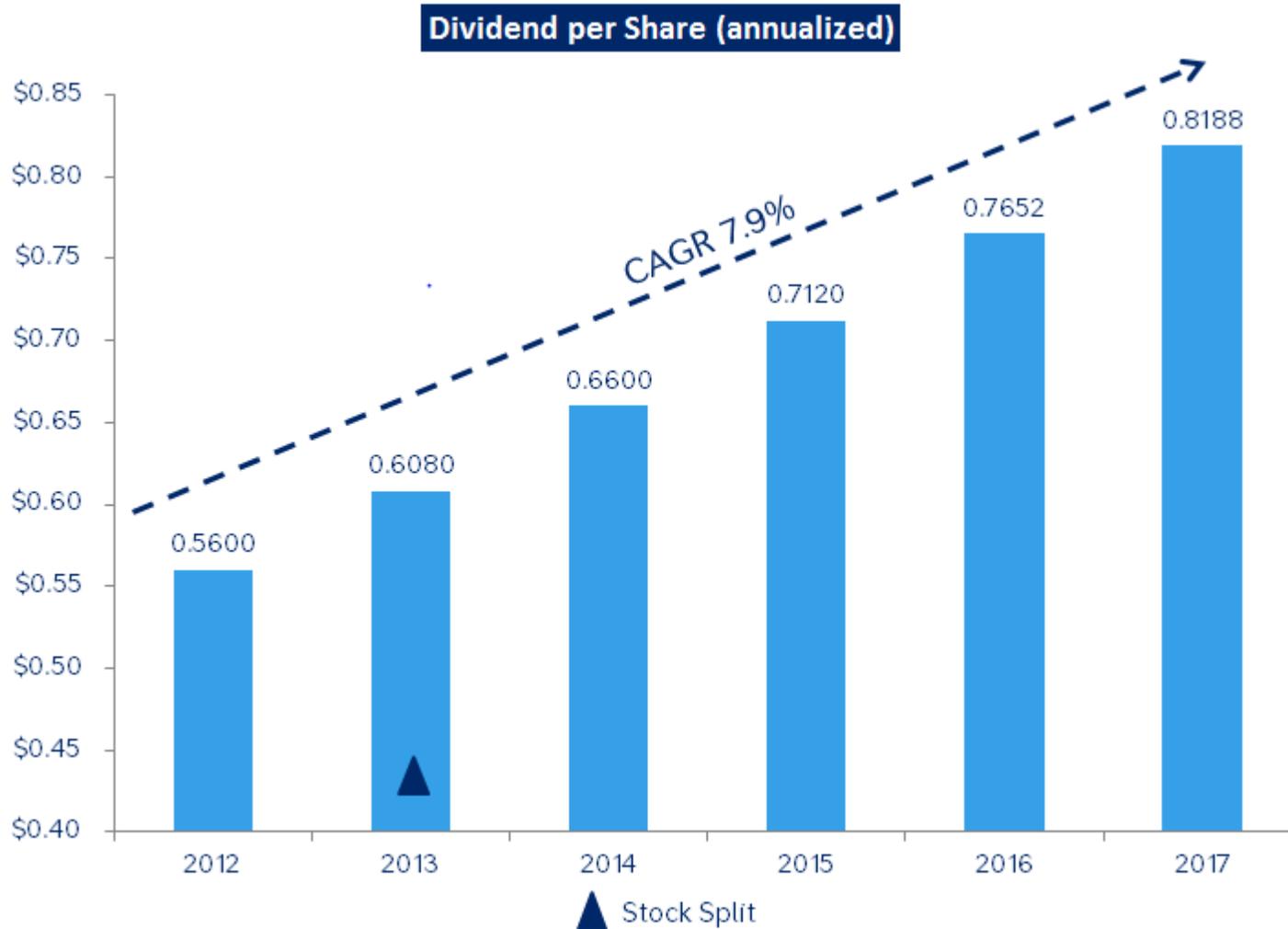
Earnings per Common Share

Q4 2017 vs. Q4 2016



Dividend History

7.0% Increase to Annualized Dividend Rate of \$0.8188 Effective 9/1/2017



Rates and Infrastructure Surcharges Completed

as of December 31, 2017

Rates or Surcharges Received in 2017			
State	Docket Number	Type	Awarded Annualized Revenue Increase (\$thousands)
Indiana	44752	Rate Case (ww)	\$1,896
Illinois	17-0131	Surcharge (w)	\$454
	17-0131	Surcharge (w)	\$660
	17-0131	Surcharge (ww)	\$42
	17-0131	Surcharge (w)	\$64
	17-0131	Surcharge (ww)	\$116
	17-0131	Surcharge (ww)	\$128
	17-0131	Surcharge (ww)	\$5
New Jersey	N/A	Surcharge (w)	\$1,246
	N/A	Surcharge (w)	\$706

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

(Continued on next page)

Rates and Infrastructure Surcharges Completed

as of December 31, 2017

(continued from previous page)

Rates or Surcharges Received in 2017			
State	Docket Number	Type	Awarded Annualized Revenue Increase (\$thousands)
North Carolina	W-215-Sub-363A	Surcharge (w)	\$482
	W-215-Sub-363A	Surcharge (ww)	\$57
	W-215-Sub-363A	Surcharge (w)	\$25
	W-218-Sub-363A	Surcharge (w)	\$269
	W-218-Sub-363A	Surcharge (ww)	\$55
	W-218-Sub-363A	Surcharge (w)	\$28
	W-218-Sub-363A	Surcharge (w)	\$(1)
	W-218-Sub-363A	Surcharge (ww)	\$31
Ohio	Ordinance # 22-2013	Rate Case (w)	\$731
	Ordinance # 14-041	Rate Case (w)	\$534
	16-0907-WW-AIR	Rate Case (w)	\$4,242
Pennsylvania	M-2017-2625811	Surcharge (w)	\$9,651
	M-2017-2605860	Surcharge (w)	(9)
	M-2017-2635523	Surcharge (w)	\$37

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

(Continued on next page)

Rates and Infrastructure Surcharges Completed

as of December 31, 2017

(Continued from previous page)

Rates or Surcharges Received in 2017			
State	Docket Number	Type	Awarded Annualized Revenue Increase (\$thousands)
Virginia	PUR-2017-00017	Rate Case (w)	\$67
	PUR-2017-00017	Rate Case (ww)	\$88
Total			\$21,604

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

Rates and Infrastructure Surcharges Completed

as of February 23, 2018

Rates or Surcharges Received in 2018			
State	Docket Number	Type	Awarded Annualized Revenue Increase (\$thousands)
North Carolina	W-218, Sub 363A	Surcharge (ww)	\$56
	W-218, Sub 363A	Surcharge (w)	\$14
	W-218, Sub 363A	Surcharge (ww)	\$9
Ohio	Ordinance # 22-2013	Rate Case (w)	\$769
	Ordinance # 14-041	Rate Case (w)	\$564
Pennsylvania	M-2017-2638898	Surcharge (w)	\$9,651
		Total	\$11,063

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

Rates and Infrastructure Surcharges Pending

as of February 23, 2018

Rates Pending in 2018			
State	Docket Number	Type	Requested Annualized Revenue Increase (\$thousands)
Virginia	PUR-2017-00082	Rate Case (w)	\$1,489
	PUR-2017-00082	Rate Case (ww)	\$399
Illinois	17-0259	Rate Case (w)	\$10,542
	17-0259	Rate Case (ww)	\$1,458
New Jersey	WR16010090	Surcharge (w)	\$1,913
		Total	\$15,801

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