

# **Kankakee Water Division**

## **Section 285.305 (j)**



AQUA<sup>SM</sup>

IR PRESENTATION

*December 11, 2013*

# FORWARD LOOKING STATEMENT

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**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; the success of cost containment initiatives, including 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 effect of regulation on consolidation of the industry; the ability to generate earnings from capital investment; and other factors discussed in our Form 10-K for the fiscal year ended December 31, 2012, 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)**

# AQUA AMERICA

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## **Large Multi-State Water/Wastewater Company**

- » Constructive Regulatory Climate
- » Long History of Consistent Profitable Results

## **Growth-Through-Acquisition Strategy**

## **No Product Substitution Risk / Geographic Diversity**

## **New Unregulated Opportunities – Water Energy Nexus**

## **Financial Strength – Strong Balance Sheet**

# U.S. WATER INDUSTRY OPPORTUNITY

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## **Consolidation and Customer Growth**

### **Highly fragmented; small private sector**

» 50,000 systems regulated by EPA; 85% municipal / 15% private

### **Niche industry, 10 publicly traded companies**

» Total market cap ≈ \$16 billion

### **Significant barriers to entry, monopoly status**

» Start-ups have not been successful

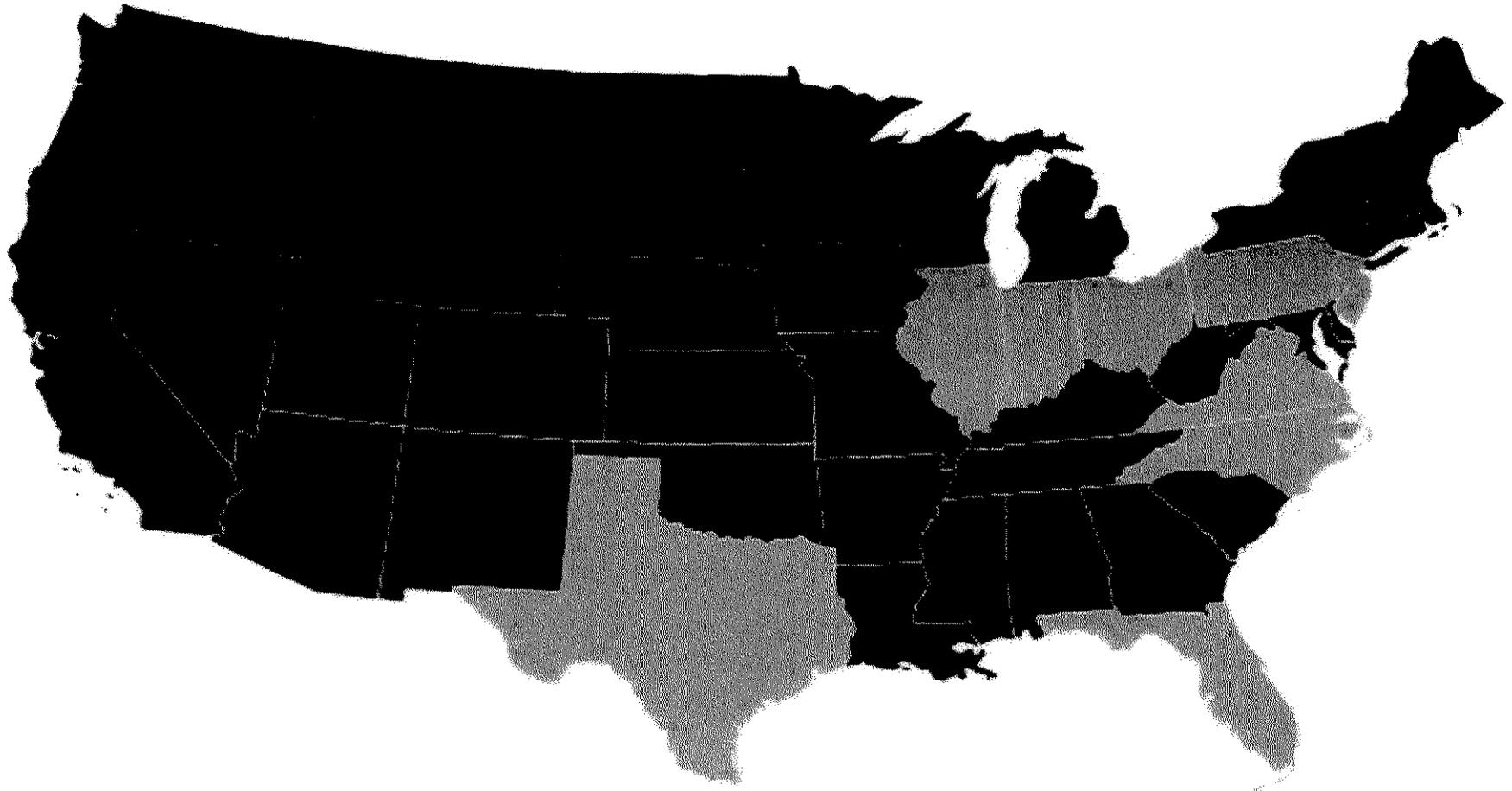
### **Growth-through-acquisition potential**

» Typical utilities achieve 1% customer growth

» WTR 10 year average equals 4.5% due to acquisitions

# REGULATORY OPERATIONS IN 9 STATES

More than 200 acquisitions and growth ventures since 1995



# RECENT DEVELOPMENTS AND GROWTH PLAN

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## **Growth:**

- » Capital Expenditures – Regulated rate of return
- » Acquisitions of new systems / customers
- » Non-Regulated Business

## **Efficiency and Portfolio Rationalization**

- » Concentrate efforts in most advantageous jurisdictions

## **Financial Strength**

- » Effective use of tax policies
- » Cash generation

# PORTFOLIO RATIONALIZATION

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- **Eliminated Florida and Missouri Annual Loss**
- **Acquired Texas Assets which are earning at state ROE levels**
- **Traded NY assets for Ohio assets and picked up \$50M of rate base at book value**
- **Fort Wayne expected provide a gain and cash in 2014**

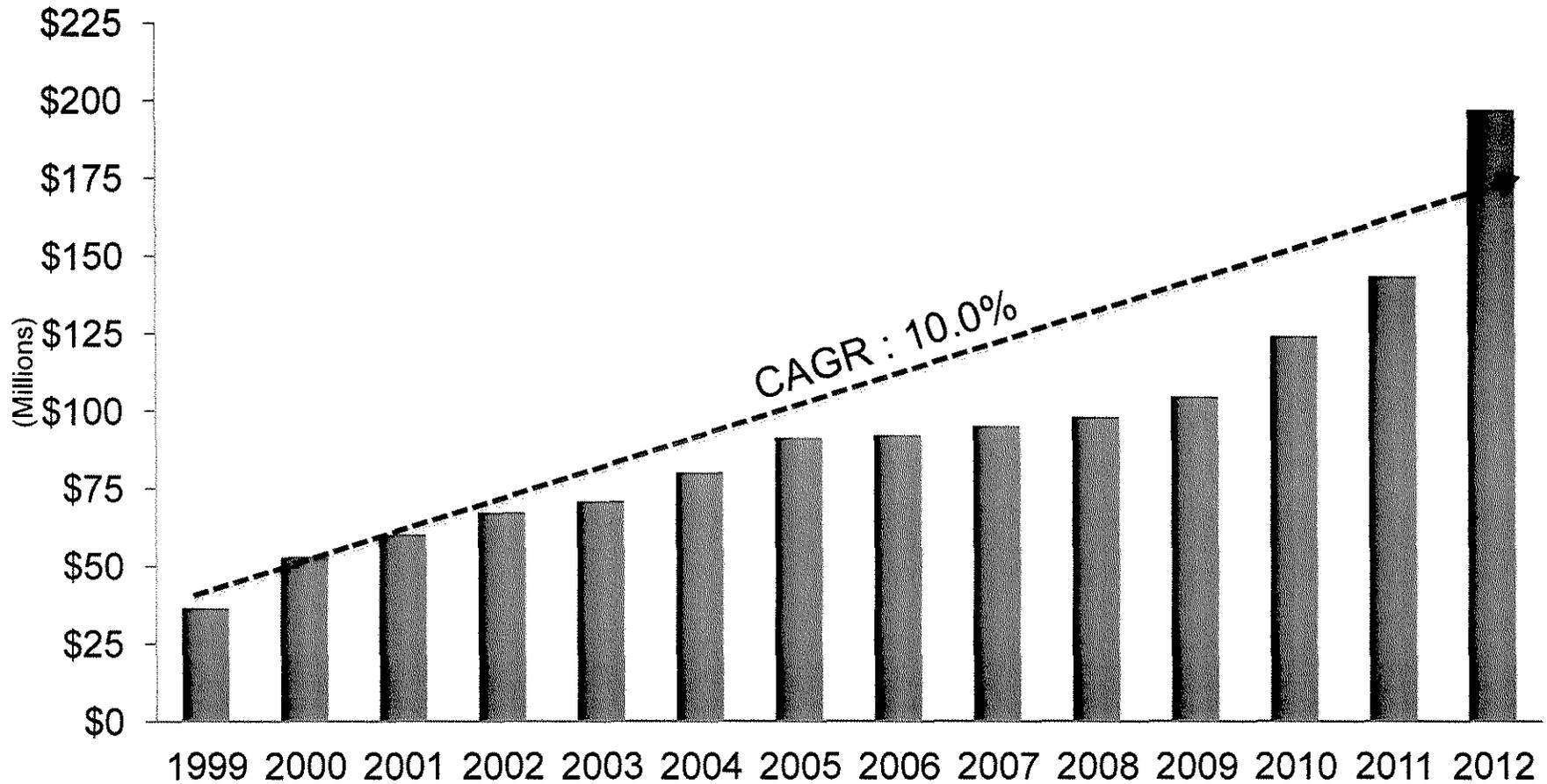
# AQUA YTD 2013 RESULTS

## YTD 2013 vs. YTD 2012

In thousands except per share	YTD 2013	YTD 2012	Growth
<b>Revenue</b>	\$580,035	\$570,279	2%
<b>Net Income</b>	\$163,768	\$130,008	26%
<b>EPS</b>	\$0.93	\$0.74	24%

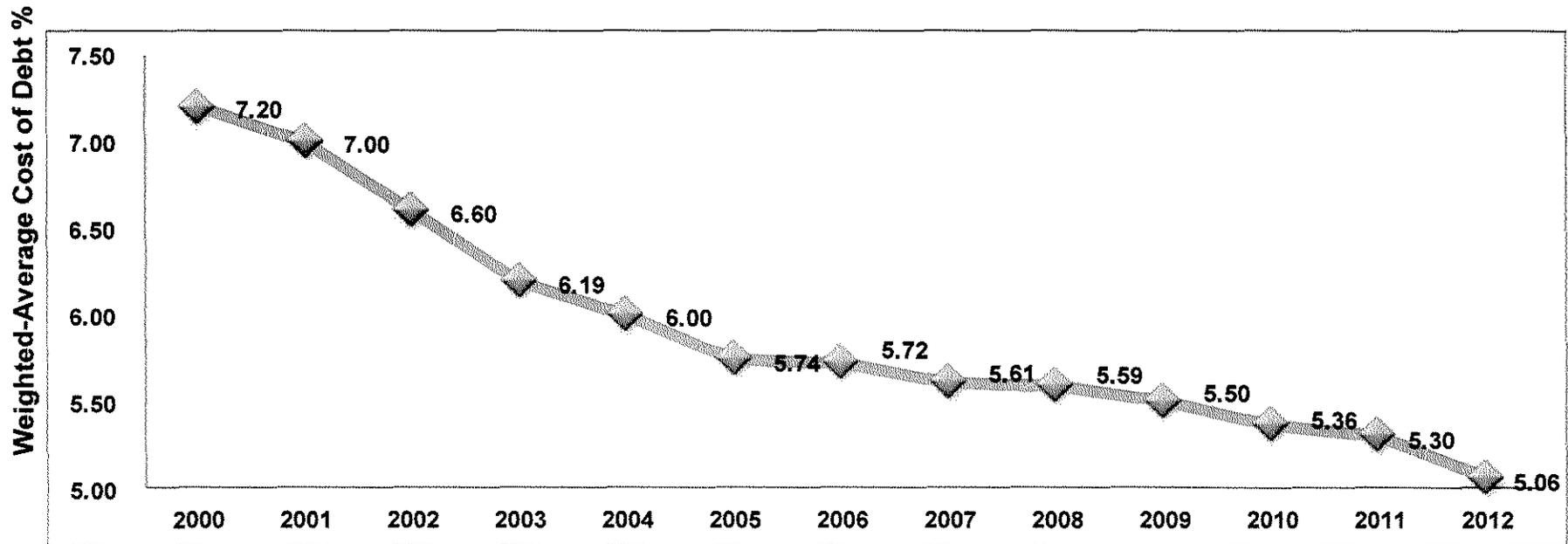
# NET INCOME GROWTH

Delivering profitable growth, modest risk



# FINANCIAL STRENGTH

## WEIGHTED-AVERAGE COST OF LONG-TERM FIXED-RATE DEBT



- Aqua Pennsylvania S&P A+ rating, ranked third among U.S. regulated utilities
- No need for equity dilution

# AQUA'S GROWTH PLATFORM

**Expansion of regulated operations and pursuit of very selective non-regulated opportunities**

## **Capital investment**

- » Investing \$340+ million annually (2.8 X Depreciation).
- » Cash internally generated

## **Acquisitions**

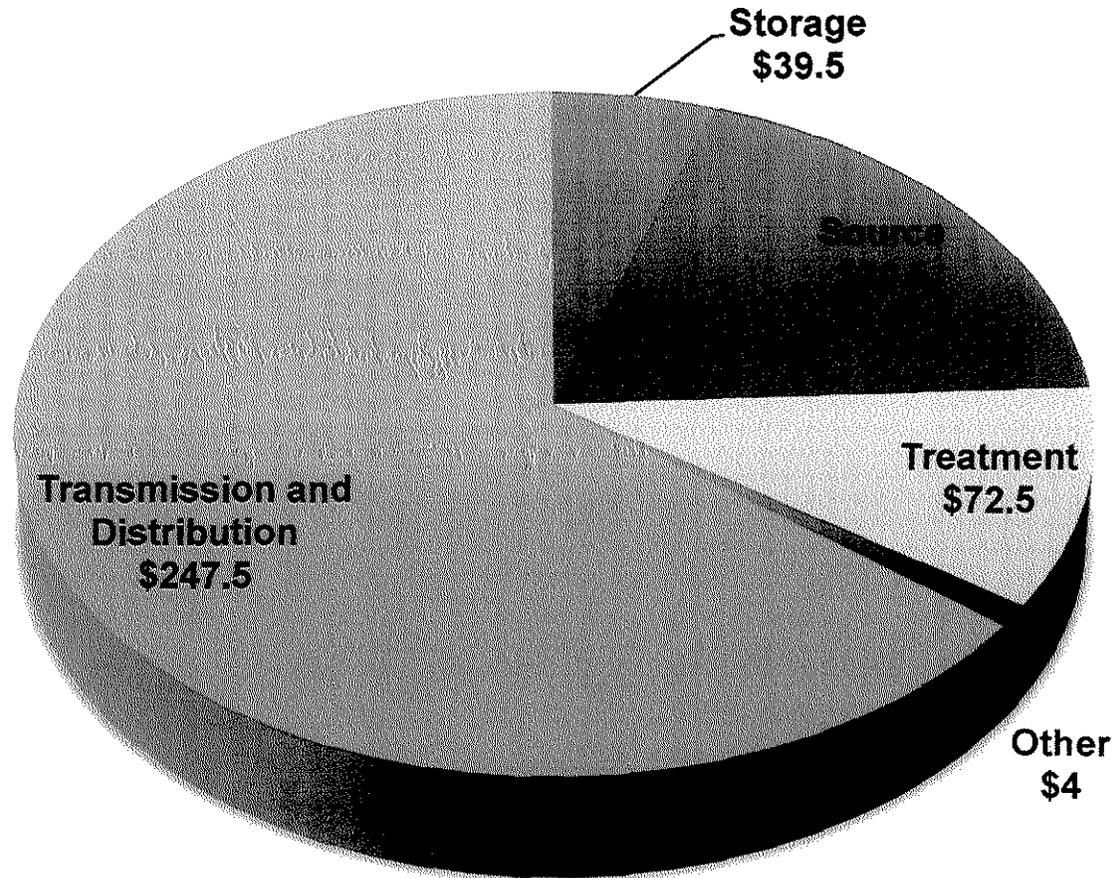
- » Tuck ins and very selective platform builders
- » Systems needing upgrades to meet environmental standards
- » Building scale and efficiency

## **Organic/ Non-regulated growth opportunities**

- » Customer growth in southern states
- » Energy-related growth in PA, TX, OH

# EPA'S ESTIMATE OF THE NATIONAL NEED FOR WATER INFRASTRUCTURE INVESTMENT

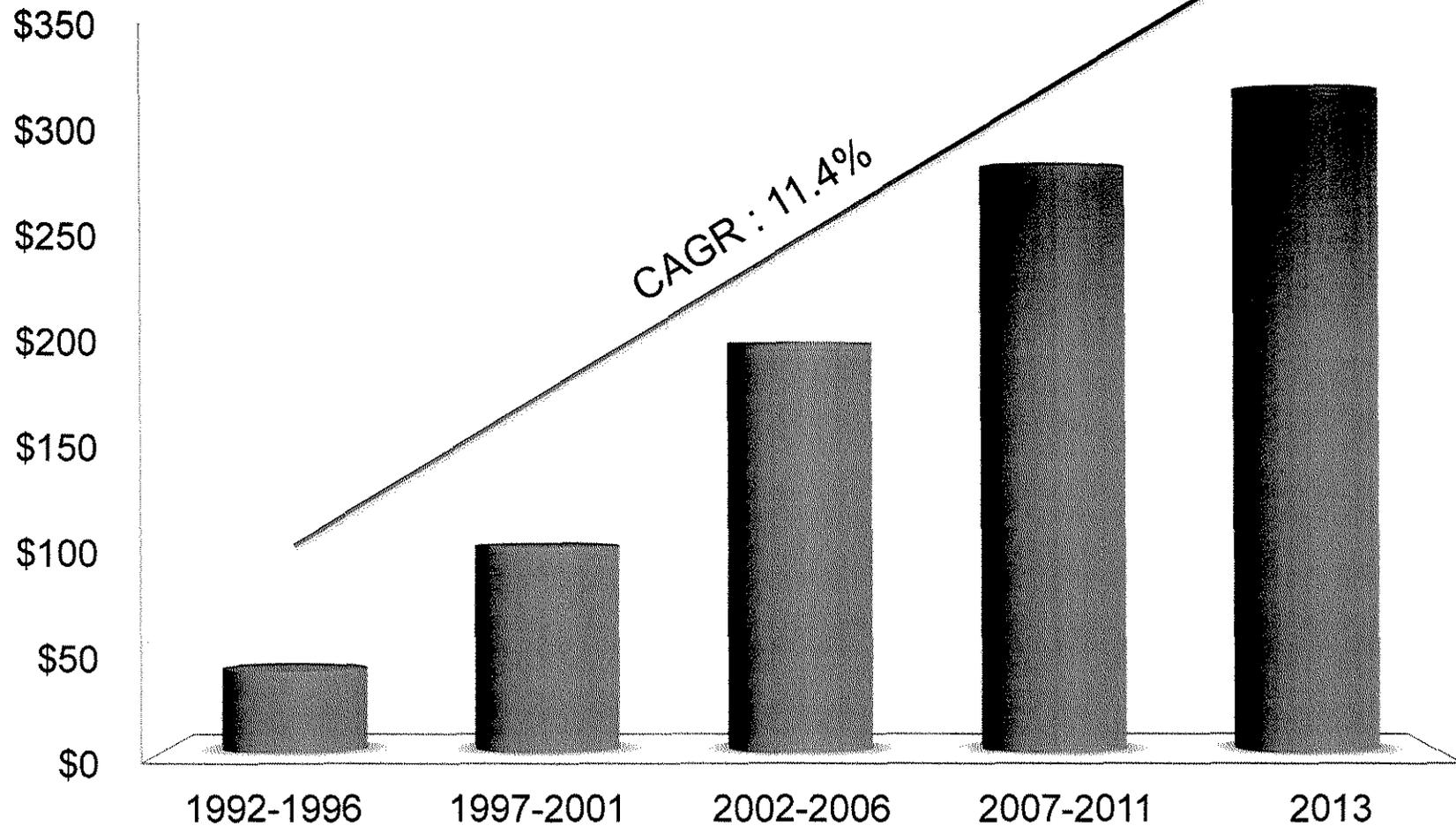
**\$384 billion needed from 2010-2030, an increase of \$49 billion from the previous report, to ensure compliance with existing and future water regulations**



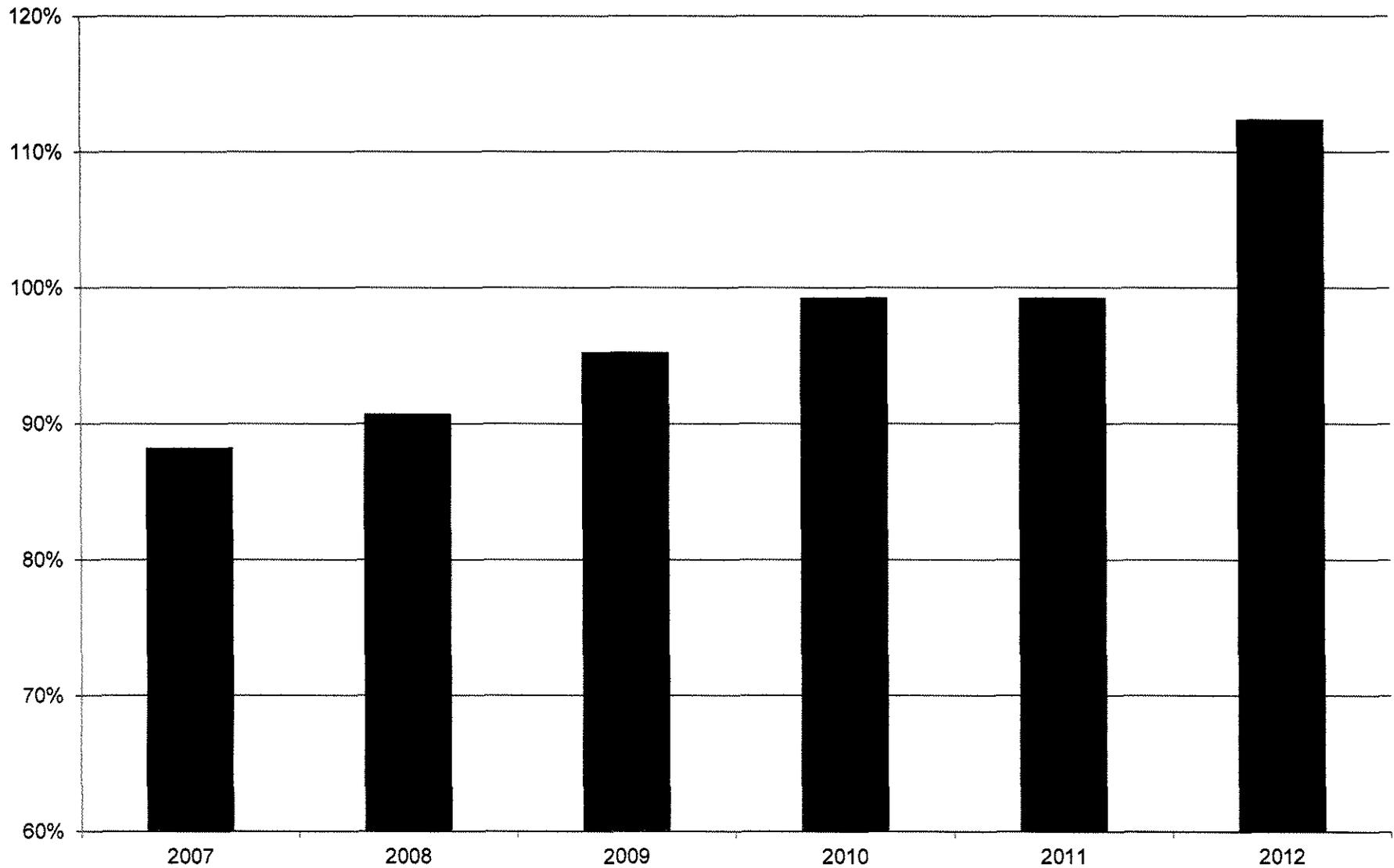
Source: 2008 EPA Needs Survey

# AVERAGE ANNUAL CAPITAL INVESTMENT

Building for the Future (millions)



# PERCENT OF CAPX FUNDED INTERNALLY



# CAPITAL INVESTMENT

## **Investing in safety, reliability, efficiency and sustainable Growth**

Aqua's infrastructure is a complex network designed to deliver quality water to homes and businesses. A great deal goes on behind the scenes to get water from rivers, lakes, streams and wells to the customers' taps.



# U.S. REGULATED MODEL

## Capex Investment Is Accretive

Hypothetical Example

Invest in Water Plant	\$48.00
Capitalize 50% with Debt	\$24.00
Capitalize 50% with Equity (1 share of WTR) or retained earnings	\$24.00
10% Assumed allowed regulatory return on equity	\$2.40
2012 Earnings per share (on 140 million shares)	\$1.12

Earning a 10% ROE on newly issued shares trading above Book Value is accretive to existing earnings per share

# INFRASTRUCTURE INVESTMENTS

Proactive



Reactive



# KEY AQUA STATES WITH PIPE SURCHARGES

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State	Allowed Rate Increase %
PA	7.5%
IL	5%
IN	5%
OH	12.75%
NJ	5%
NC	5%

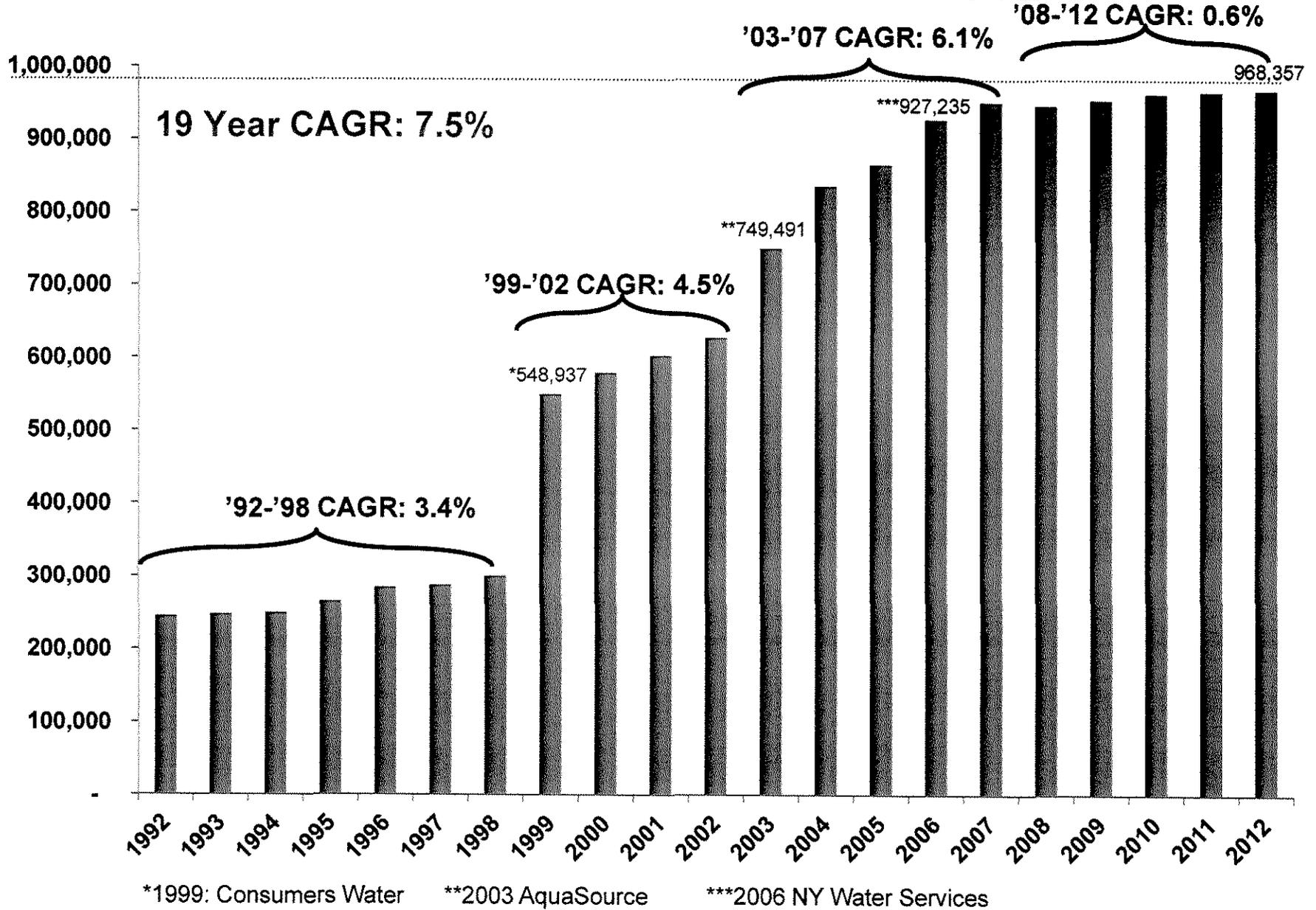
# COST PER GALLON COMPARISON

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Starbuck's Café Mocha	\$29.68
Evian Bottle Water	\$9.73
Coca Cola	\$4.17
Whole Milk	\$3.08
<b>Aqua Tap Water</b>	<b>\$0.01</b>

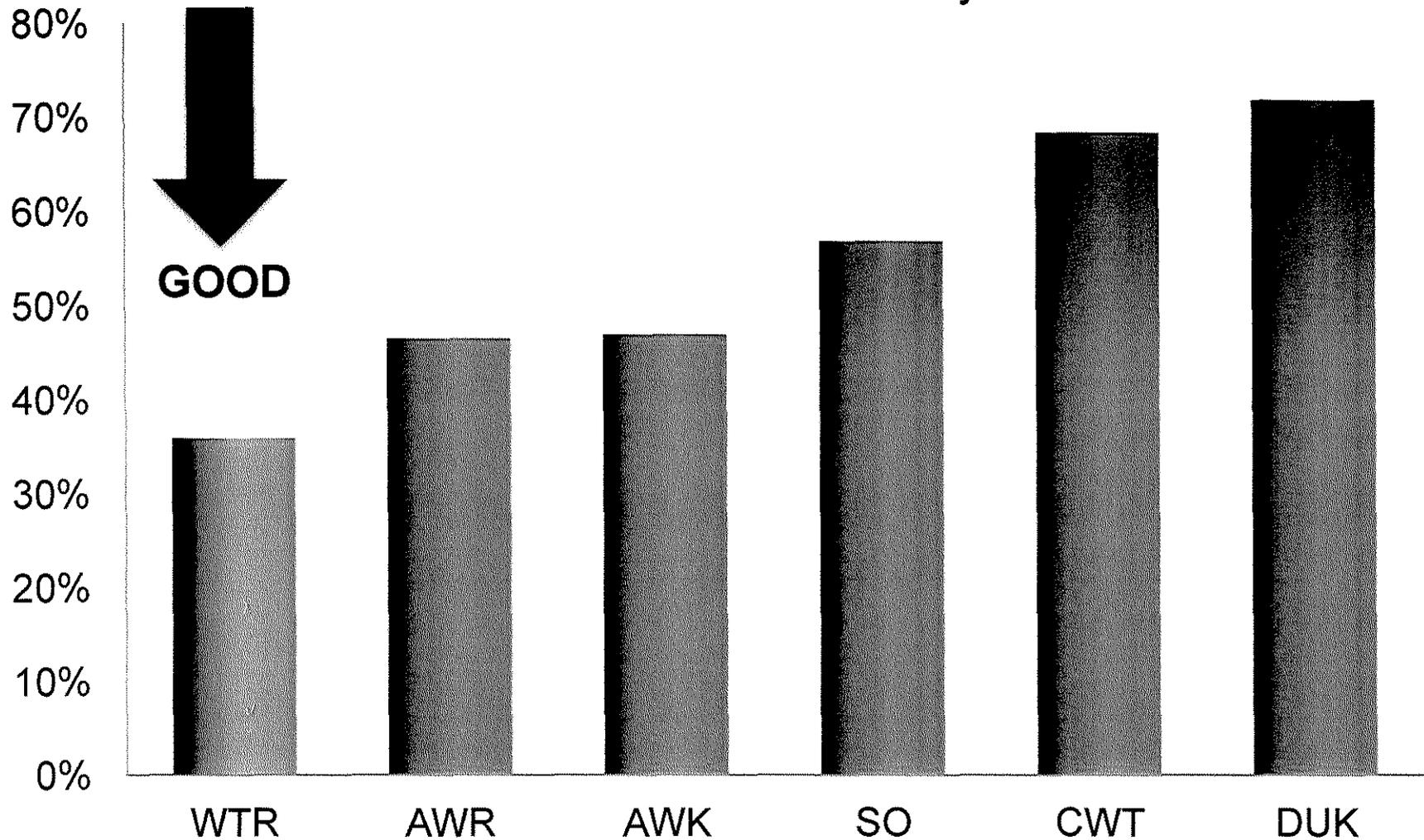
Source: NARUC, 2009

# CUSTOMER GROWTH 1992-2012

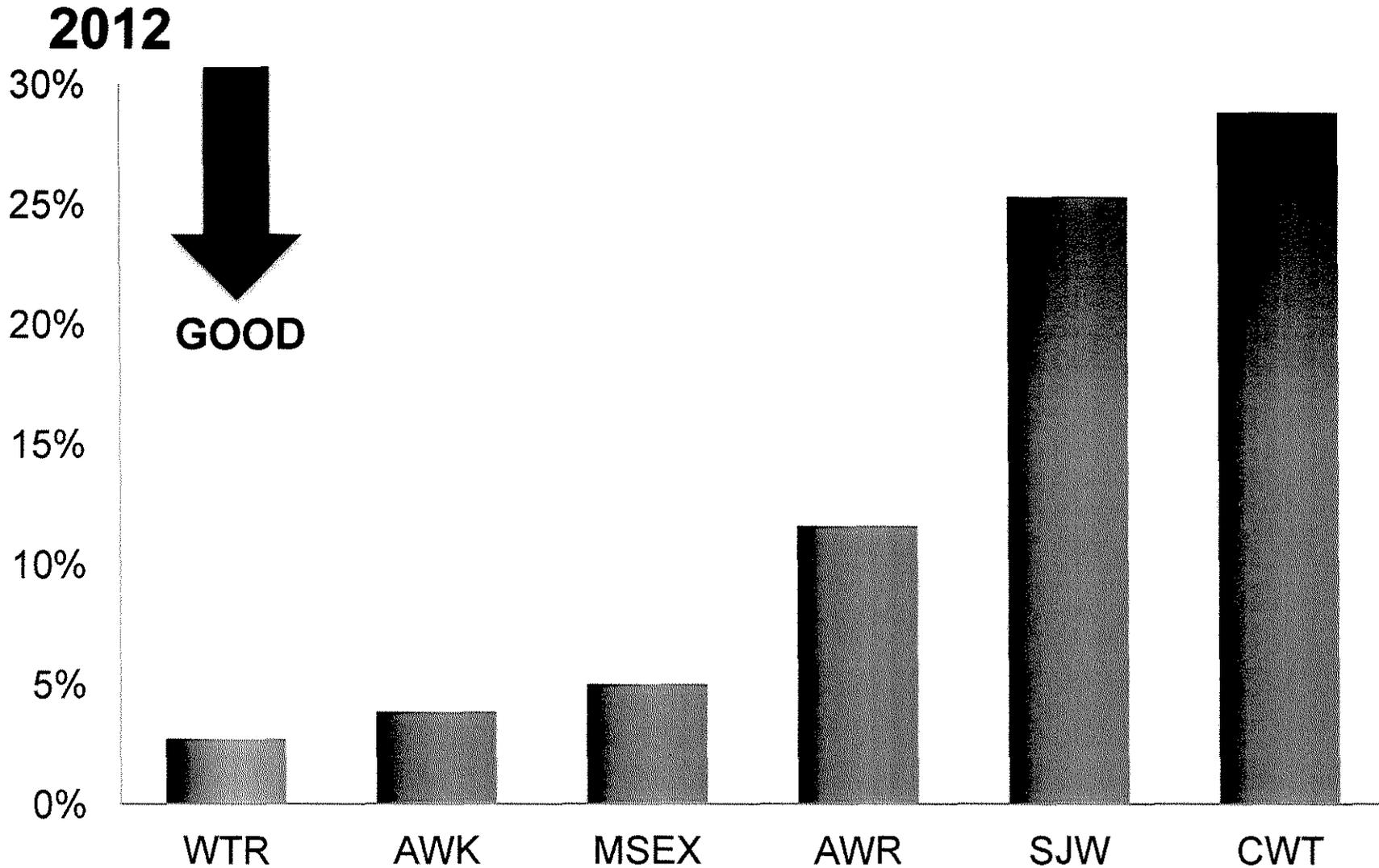


# CONTROLLING OPERATING EXPENSES

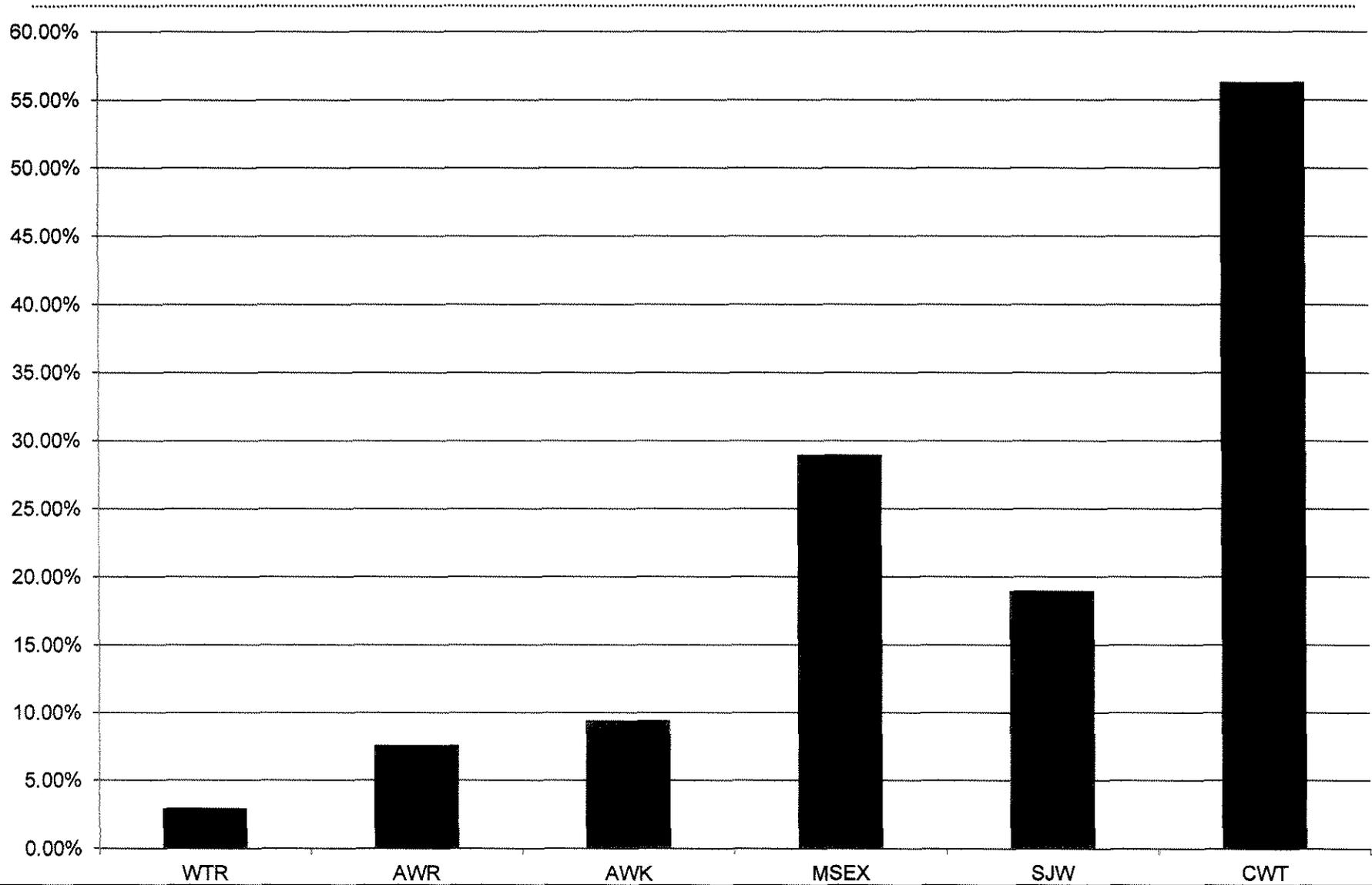
2012 O&M/Revenue = Efficiency Ratio



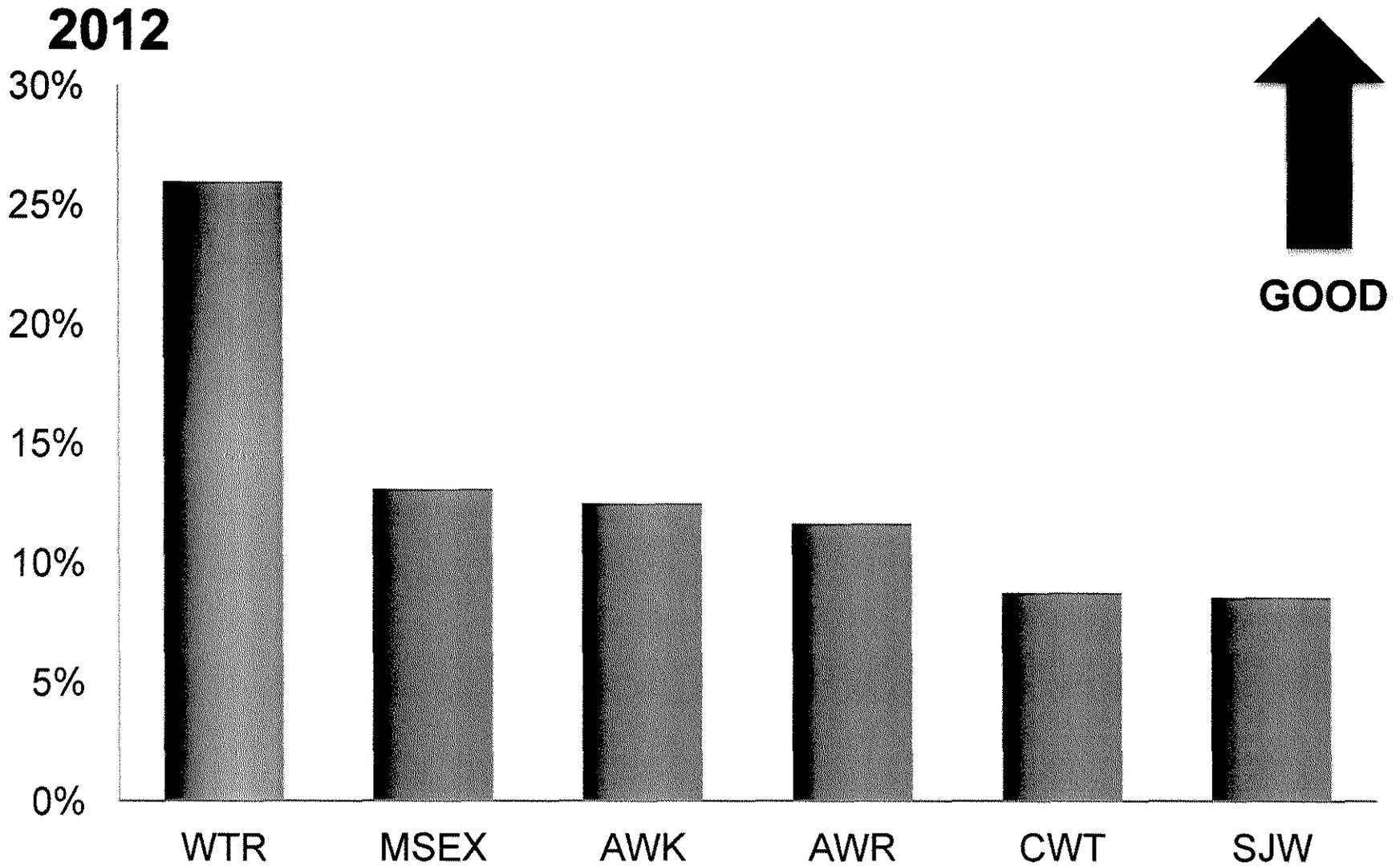
# PURCHASED WATER TO REVENUE



# PENSION EXPENSE AS A % OF OPERATING INCOME

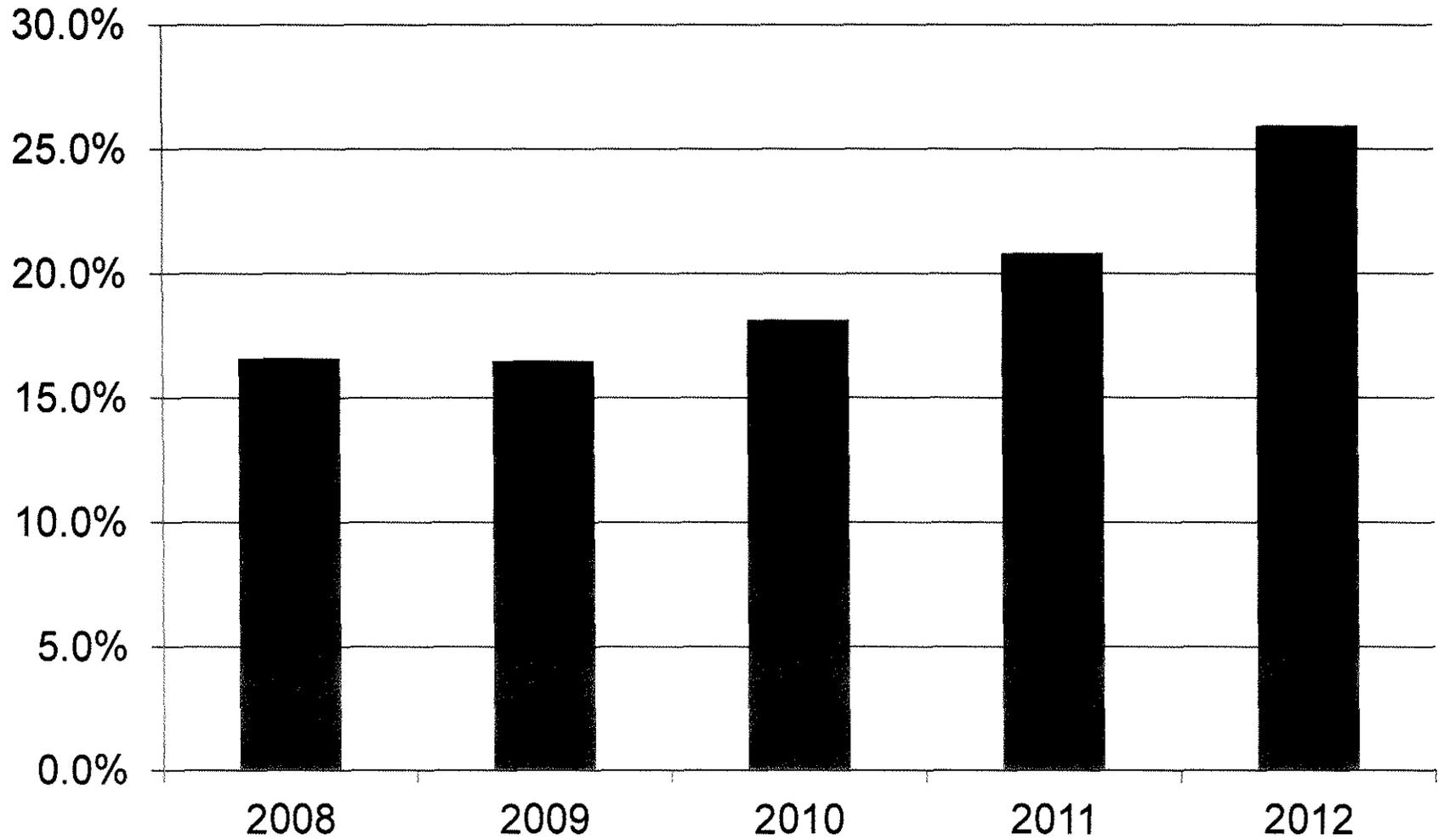


# RETURN ON REVENUE



# RETURN ON REVENUE

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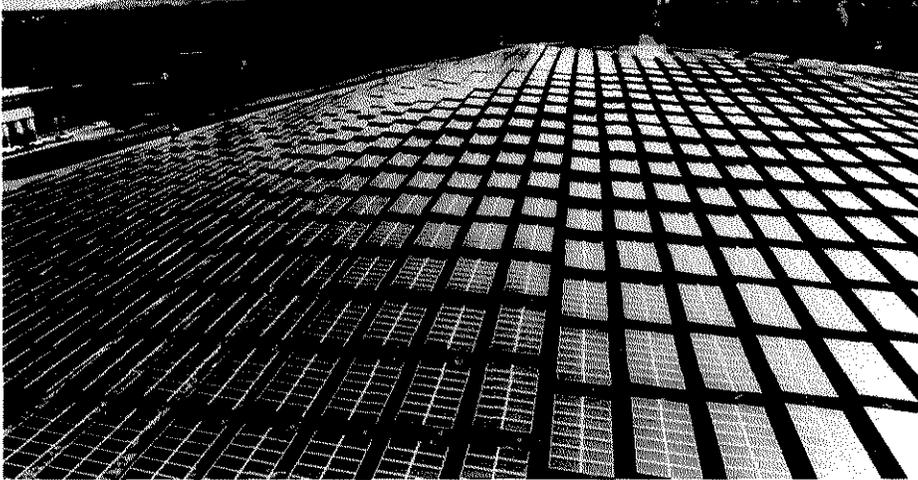
## SUSTAINABILITY

▶ 125 YEAR RECORD  
OF PROTECTING  
THE ENVIRONMENT

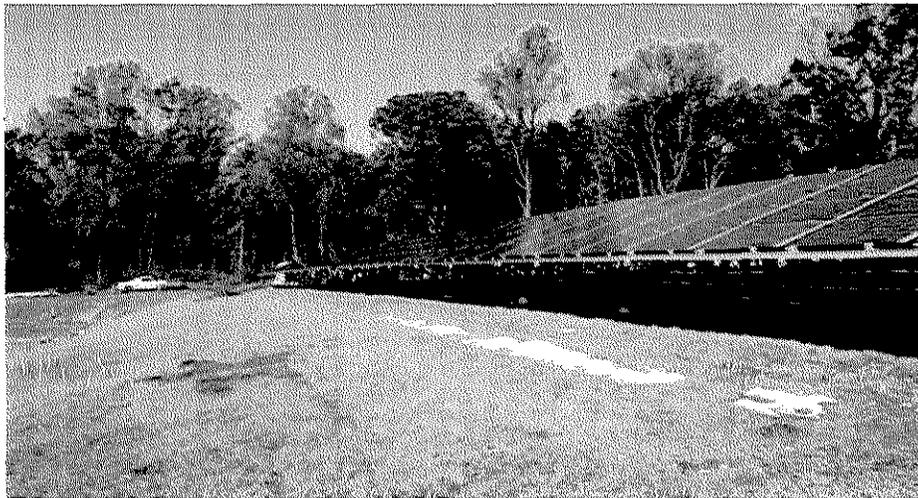
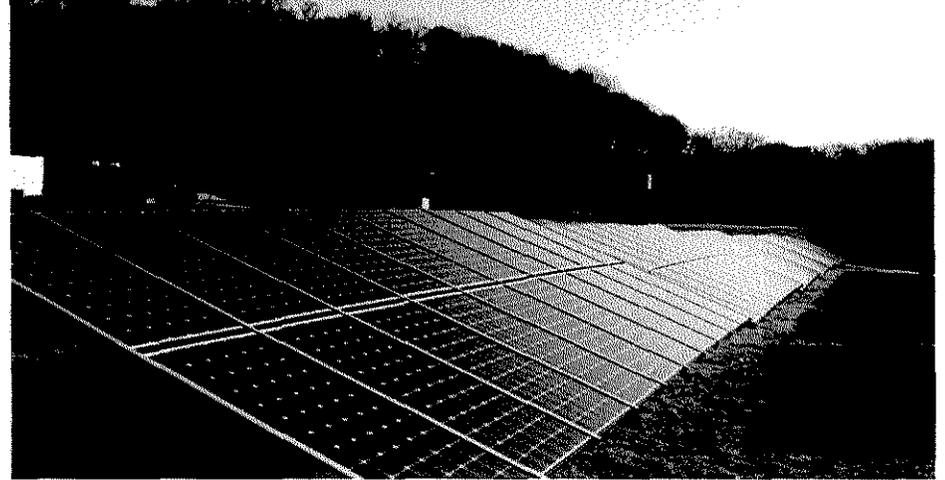
# AQUA SOLAR FARMS

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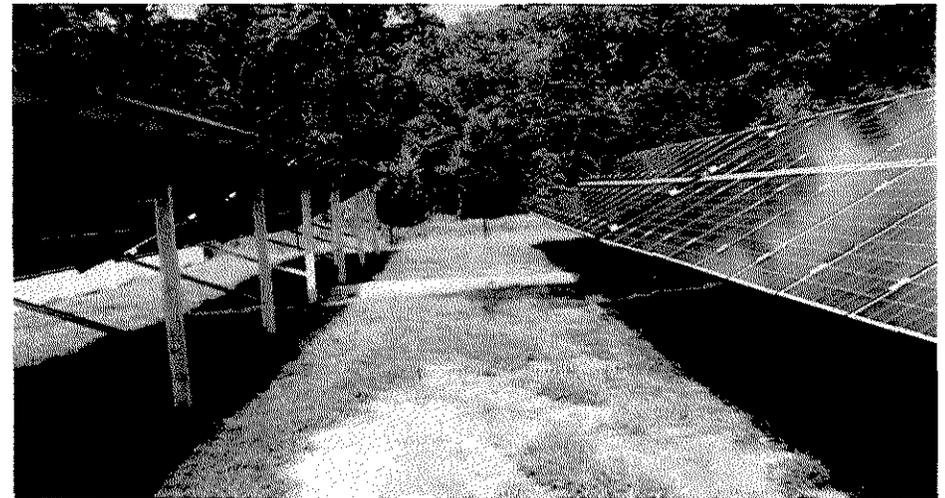
Pickering (PA)



Ingrams Mill (PA)



Lopatcong (NJ)



Sicklerville (NJ)

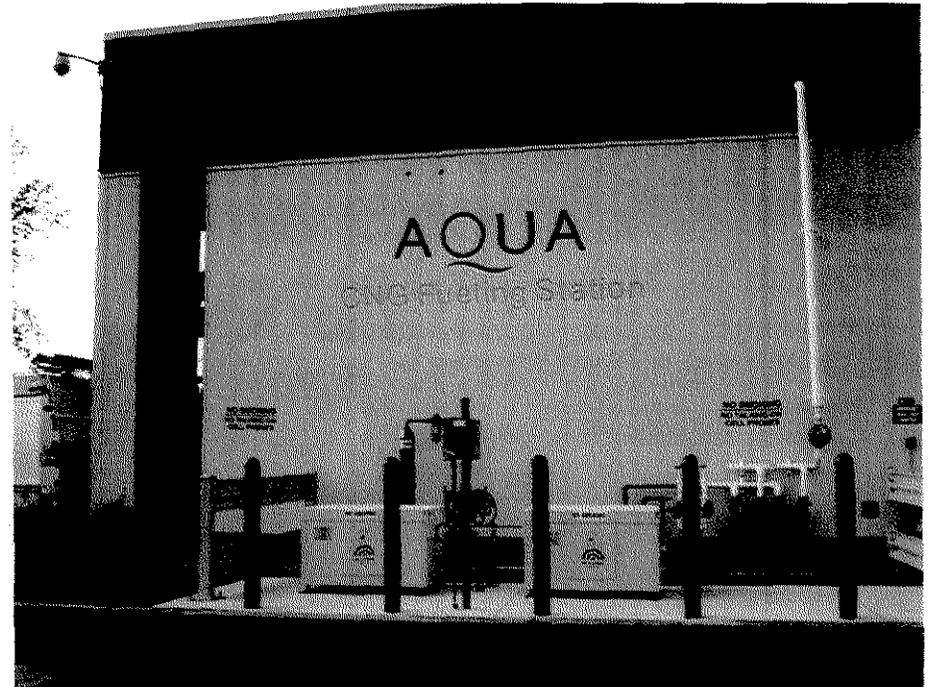
# ALTERNATIVE FUEL VEHICLES

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**CNG Cargo Van**



**New CNG Fueling Stations**



MARCELLUS SHALE



NEW  
OPPORTUNITIES

Roughly 200 tanker trucks deliver water for the fracturing process.

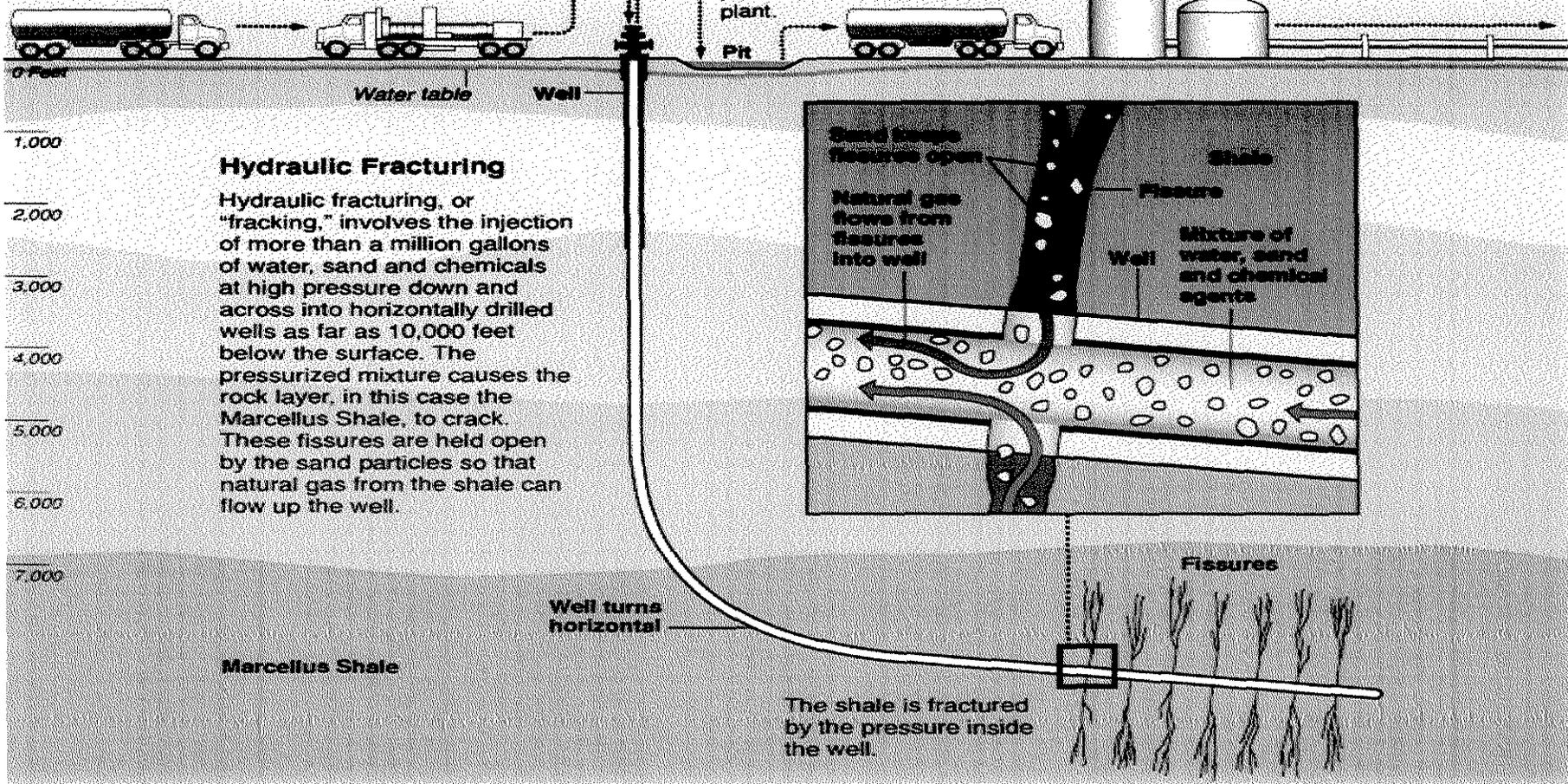
A pumper truck injects a mix of sand, water and chemicals into the well.

Natural gas flows out of well.

Recovered water is stored in open pits, then taken to a treatment plant.

Storage tanks

Natural gas is piped to market.



### Hydraulic Fracturing

Hydraulic fracturing, or "fracking," involves the injection of more than a million gallons of water, sand and chemicals at high pressure down and across into horizontally drilled wells as far as 10,000 feet below the surface. The pressurized mixture causes the rock layer, in this case the Marcellus Shale, to crack. These fissures are held open by the sand particles so that natural gas from the shale can flow up the well.

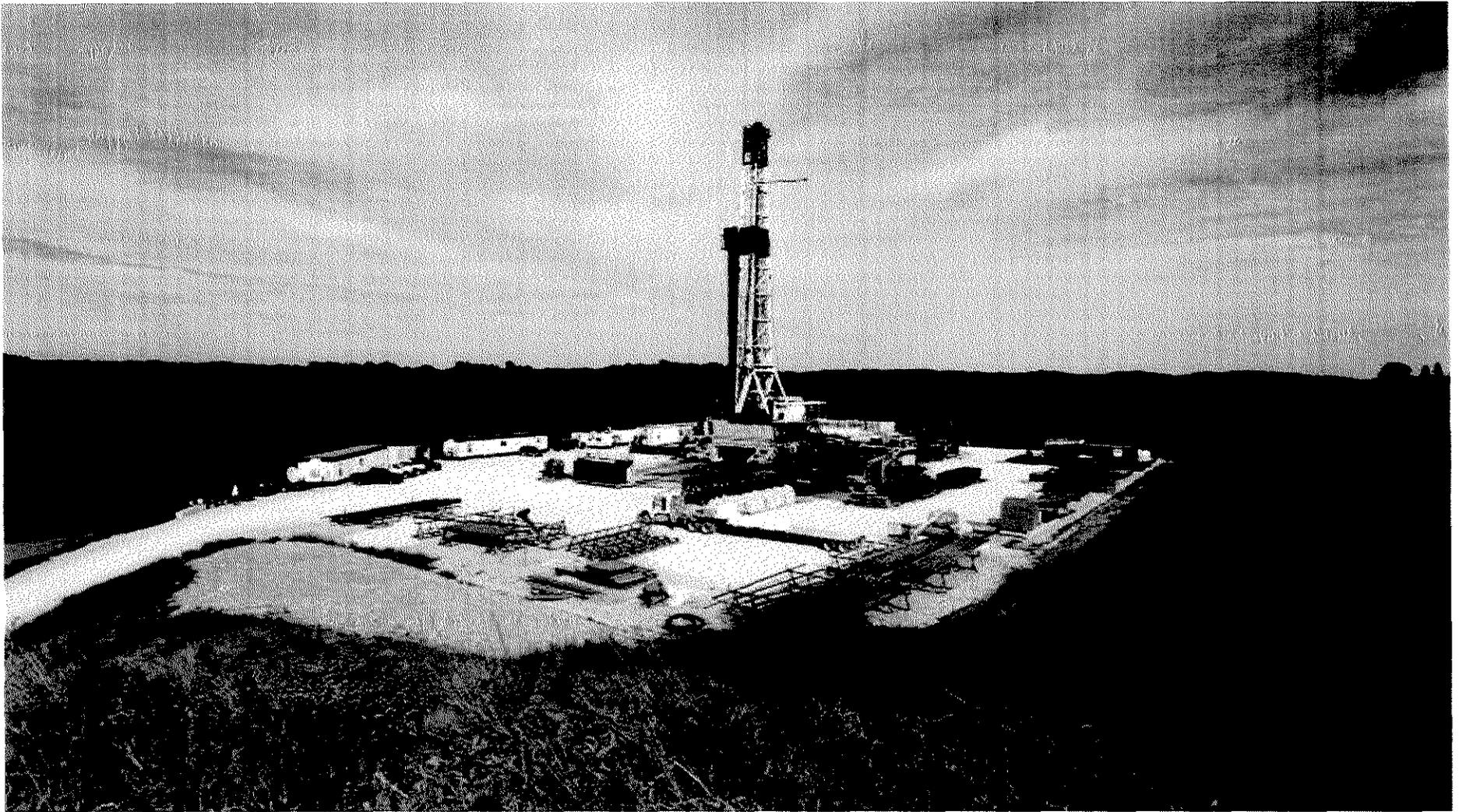
Well turns horizontal

Marcellus Shale

The shale is fractured by the pressure inside the well.

Fissures

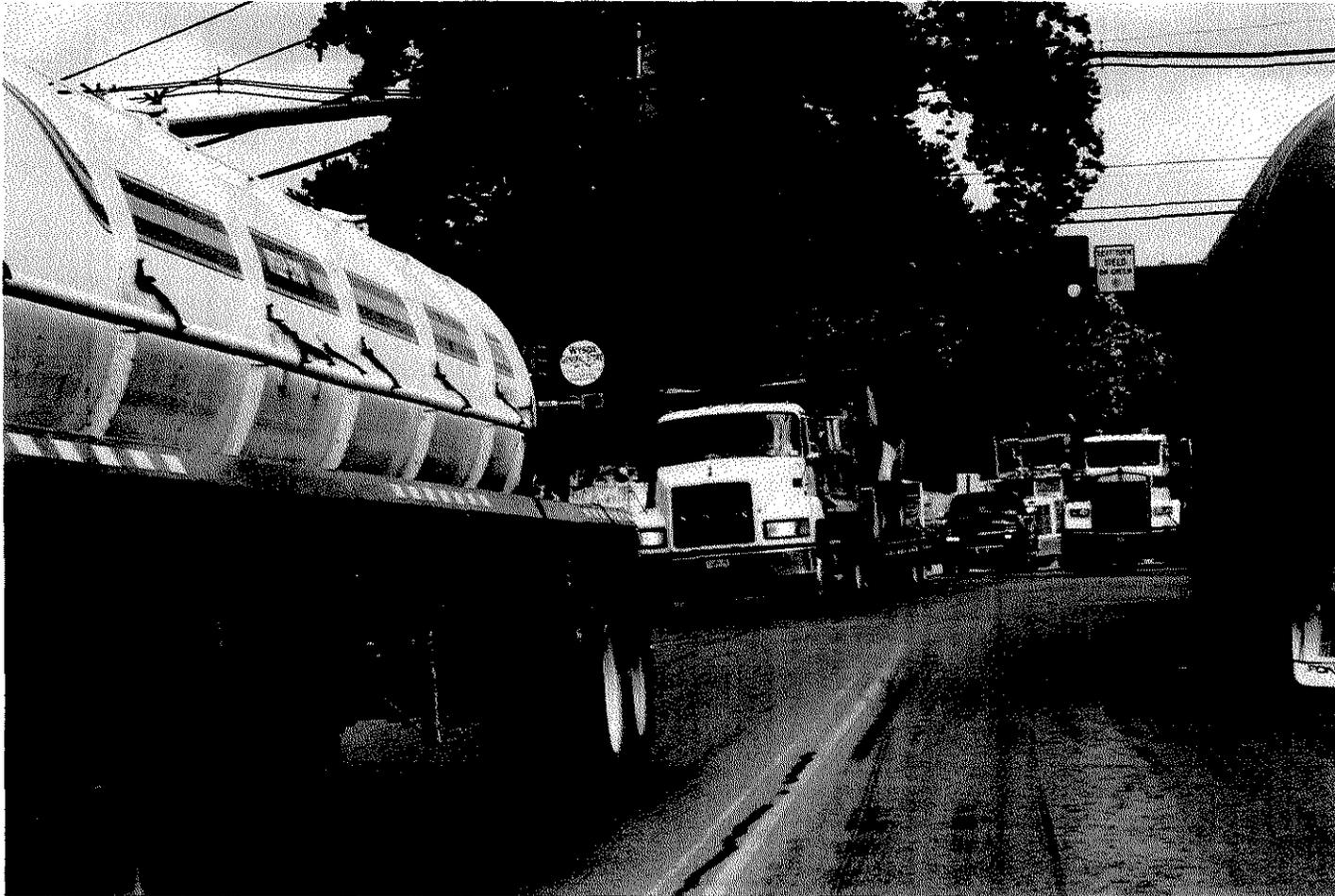
Graphic by Al Granberg

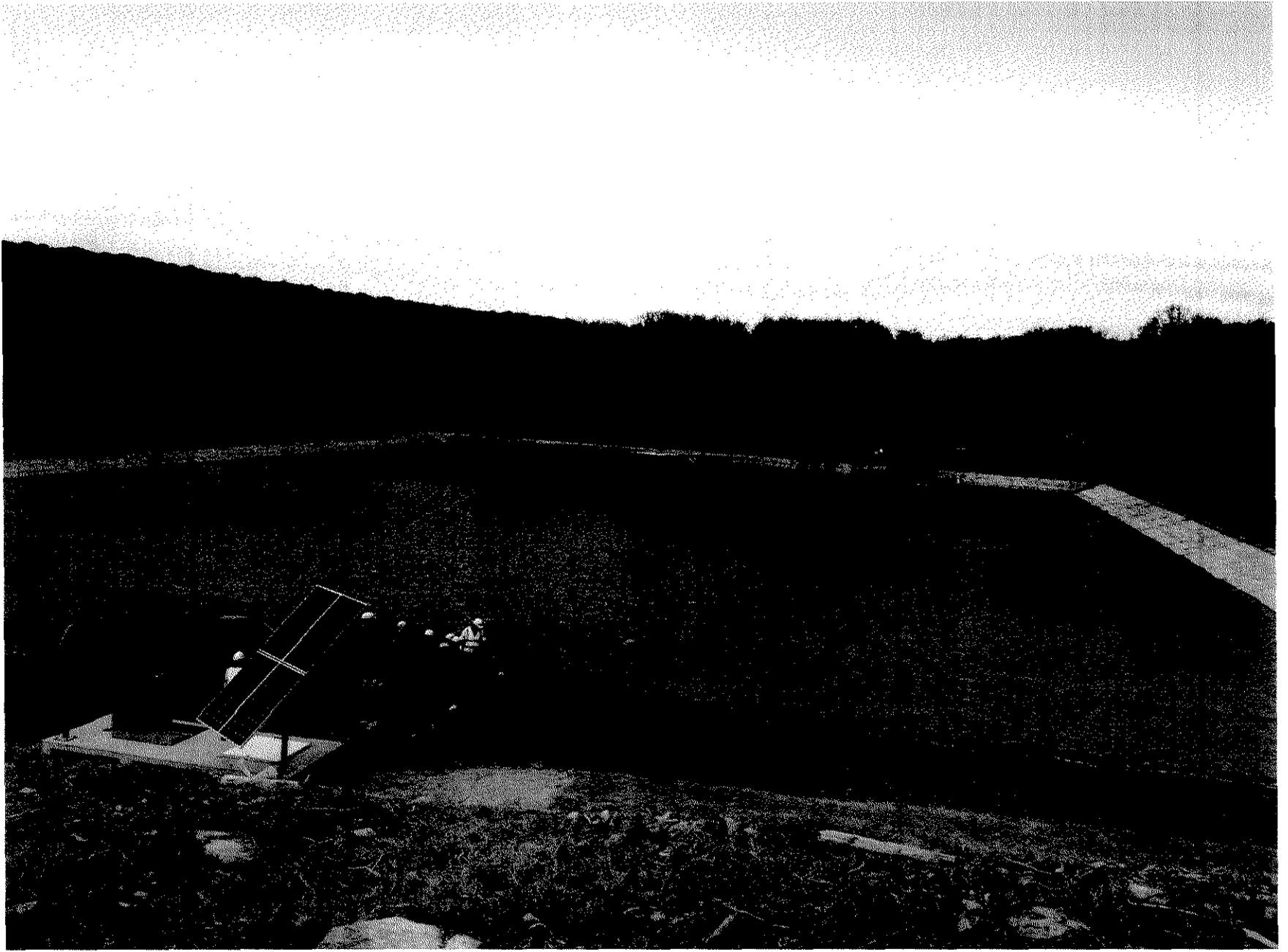


Source: SRBC

# AQUA PVR WATER PIPELINE WILL IMPROVE TRAFFIC CONDITIONS AND HAVE A POSITIVE IMPACT ON INFRASTRUCTURE AND THE ENVIRONMENT

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# UTILITY ADJACENT OPERATIONS

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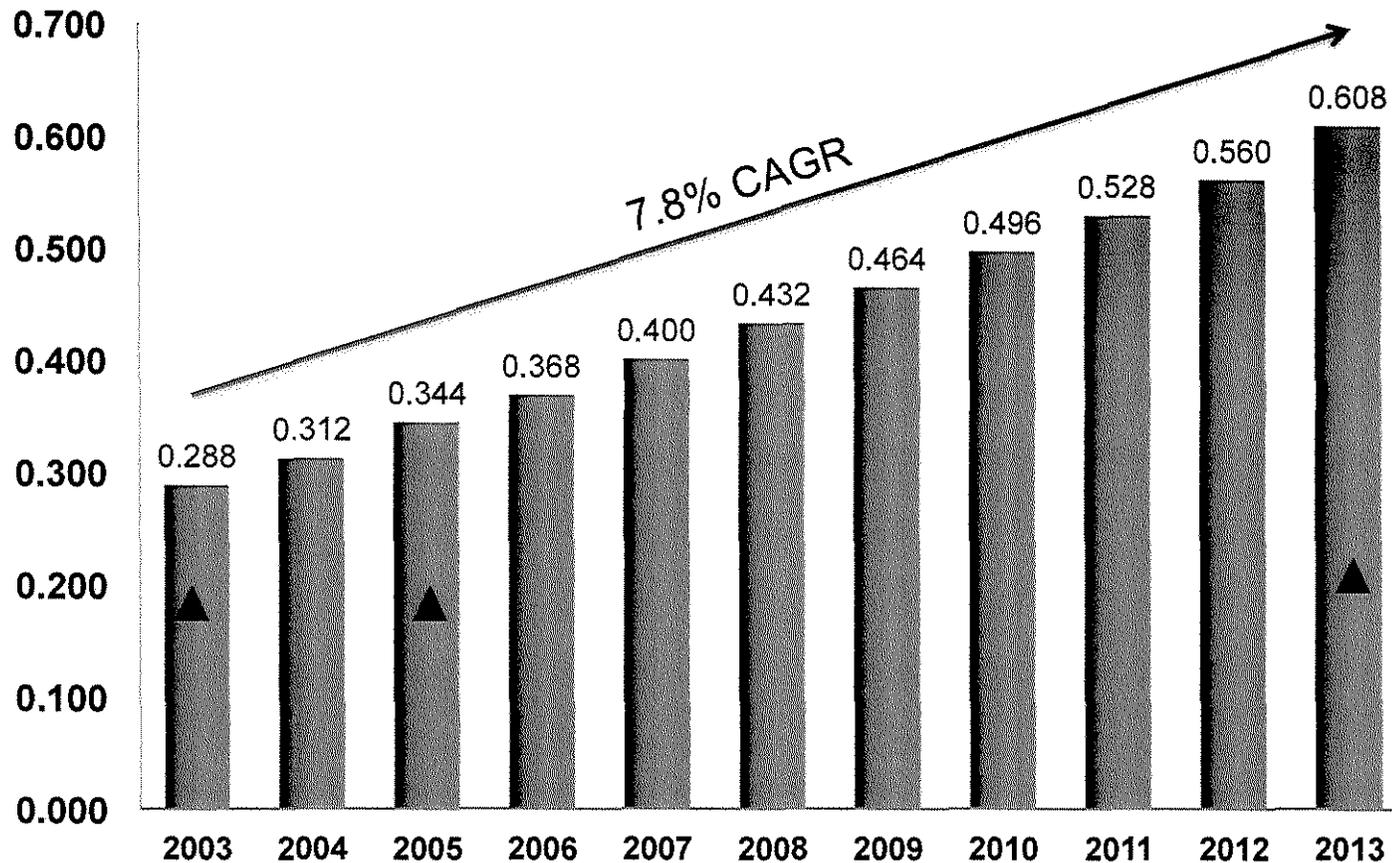
- **Line protection program**
- **Cross Connection Control**
- **O&M Operations**
- **Wastewater Management**



SHAREHOLDER  
VALUE

# DIVIDEND HISTORY

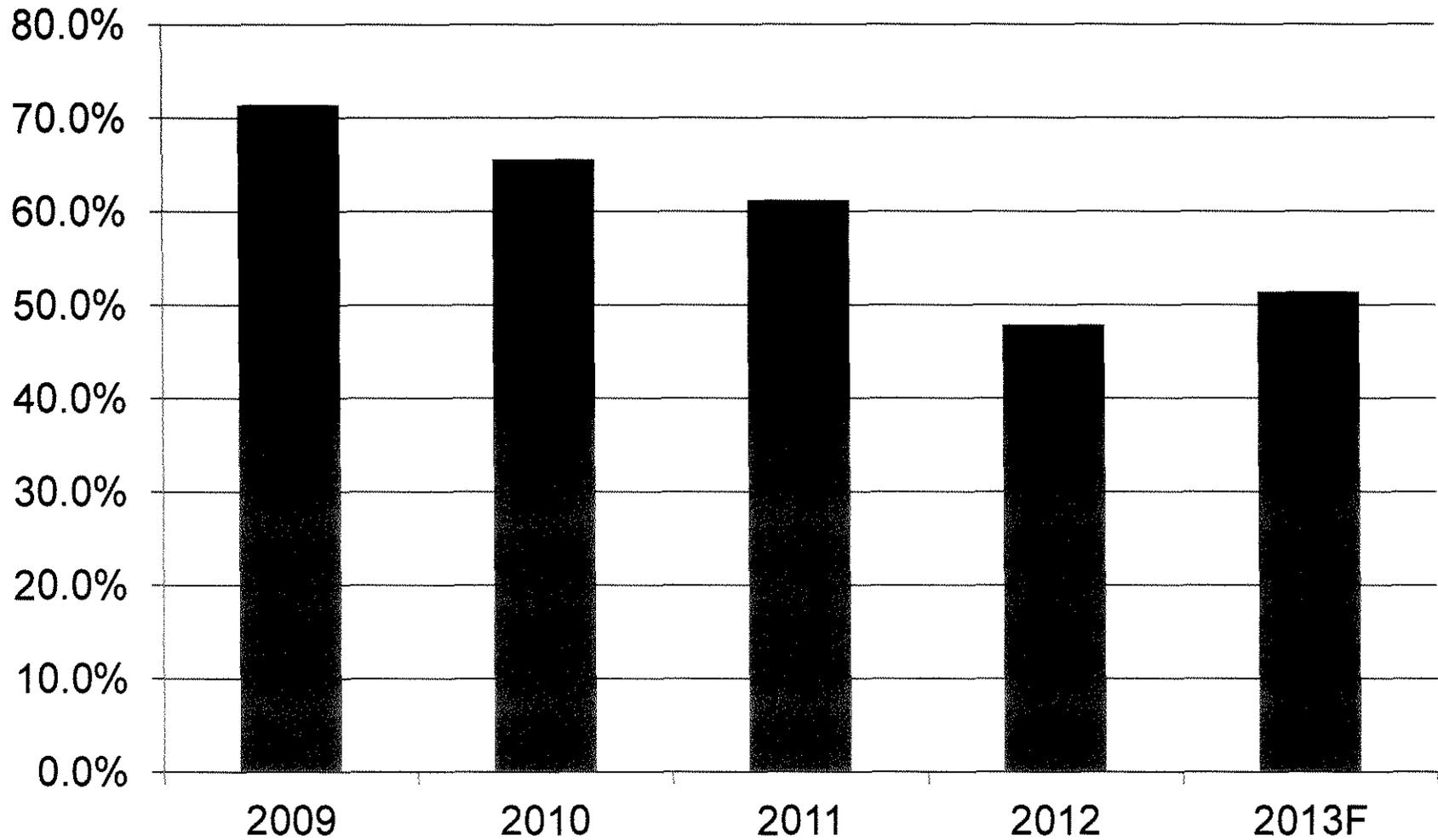
8.6% increase to annualized dividend rate of \$0.608 effective 9/1/2013



▲ Stock Splits

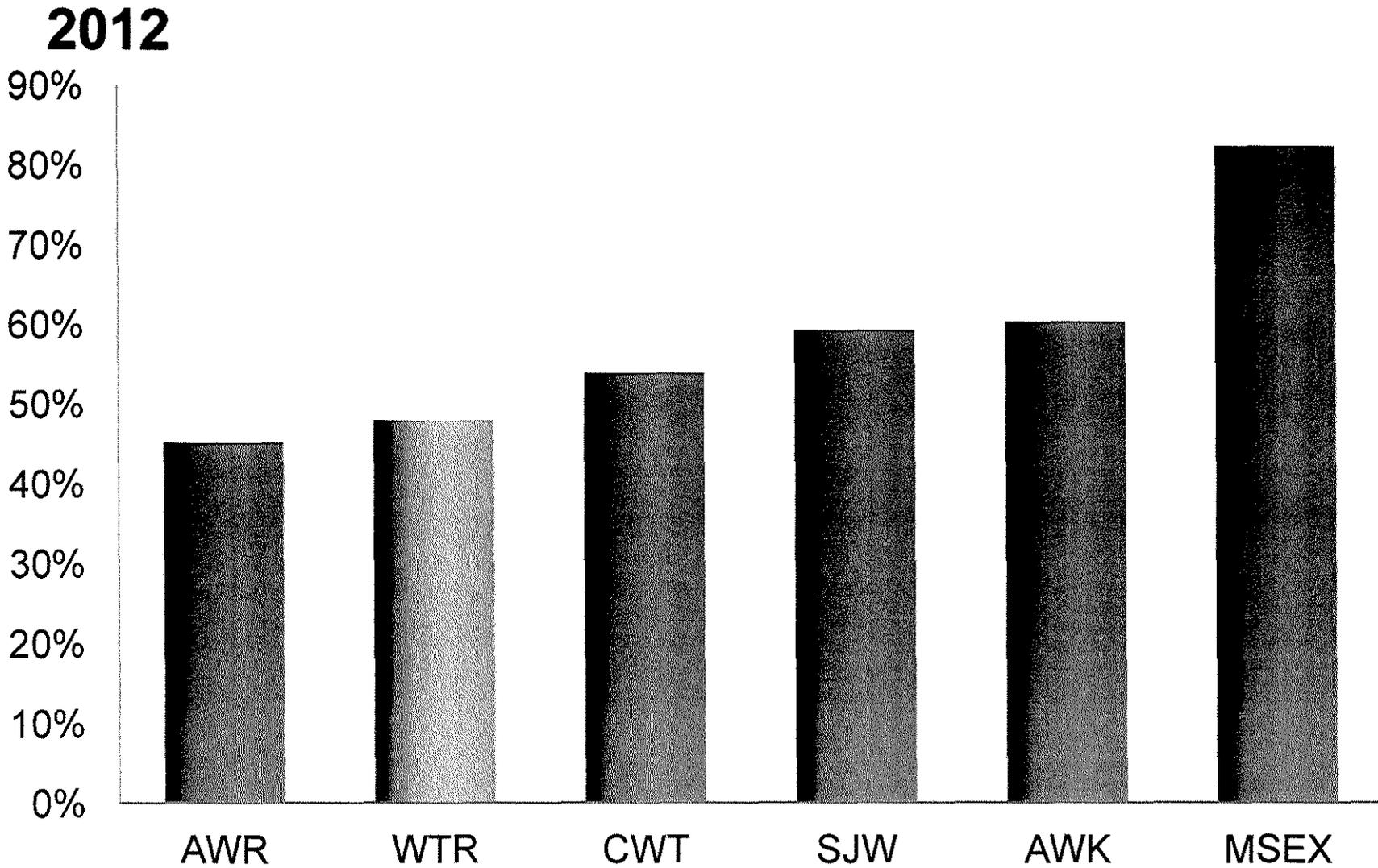
- 23<sup>rd</sup> increase in 22 years
- Named to the Dividend Channel “S.A.F.E. 25” list, signifying a stock with above-average “DividendRank” statistics

# WTR PAYOUT RATIO



*Forecast based on projected dividend and First Call estimates*

# PAYOUT RATIO



# VALUATION DIFFERENTIATORS

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**Scarcity – Only 2 US Publicly traded water utilities of size**

**Strong regulatory relations**

**DSIC – limits regulatory lag**

**Discretionary capital vs. small % of compliance capital needs**

**No fuel or commodity risk**

**Consistent 20 year dividend growth**

**Long history of customer growth & market share to be had**

**Strong long-term earnings growth history**

**Monopoly status/Regulated model/Predictability**

**A+/AA- credit ratings vs. B's for other utilities**

**Strong metric comparisons**

**Footprint in 9 states reduces risk**

**Success of acquisition strategy**

**Nominal goodwill on books**

# WHAT AQUA REPRESENTS TO THE INVESTOR

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- **A large multi-state publicly traded water utility**
- **Unique growth story – growth through acquisition strategy; service territories in high growth areas**
- **Focus on asset ownership model – invest needed capital to earn regulated return**
- **Financial strength; good credit quality**
  - Aqua Pennsylvania; S&P A+
- **History of profitability and dividend growth**

# ENVIRONMENTALLY AND SOCIALLY RESPONSIBLE

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AQUA<sup>SM</sup>



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