



U.S. Capital Advisors®

Essential Utilities Inc (WTRG)

Initiating Coverage

Hold – \$51 Price Target

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Initiation Overview

We are initiating coverage of WTRG with a Hold rating and a \$51 PT.

Investment Overview:

- **Overview:** Essential Utilities is the second largest publicly traded water utility in the US, with a market cap of ~\$12B. In 2020, they diversified into natural gas, with the acquisition of Peoples Natural Gas for \$4.3B, and with it, changed their name from Aqua America to Essential Utilities.
- **Water Fundamentals Strong...:** It's a great macro environment for public water utilities, with M&A enabling legislation, increasingly stringent water regulations and thus the need for rate base growth and a prod for municipalities to sell, and state utility commissions and legislators anxious to ensure their local water systems are safe and reliable.
- **...So M&A and Rate Base Growth Going Forward:** That backdrop is quite conducive to M&A and recoverable rate base growth, which largely drives WTRG's 5-7% EPS growth, we think, for decades to come.
- **But Stock Largely Reflects That:** In our view, WTRG stock, when factoring in the lower-multiple gas business, reflects the long runway of potential rate base and dividend growth. Thus, while we like WTRG's prospects for M&A and rate base growth, we would look for a better entry point.

Essential Utilities Inc	
Ticker	WTRG
USCA Rating	Hold
Price Target (\$/unit)	\$51
Stock Price (as of 1/20/21)	\$46.81
Yield	2.1%
Market Cap (\$mm)	\$11,935
Enterprise Value (\$mm)	\$17,457
Shares Outstanding (mm)	255
Beta	0.87
EBITDA - 2021e (\$mm)	\$1,006
EBITDA - 2022e (\$mm)	\$1,085
EV/EBITDA - 2021e	18.3x
EV/EBITDA - 2022e	17.5x
P/E - 2021e	28.1x
P/E - 2022e	26.7x
Net Debt/EBITDA - 2021e	6.1x
Net Debt/EBITDA - 2022e	6.2x
Debt/FFO - 2021e	12.6%
Debt/FFO - 2022e	12.3%

WTRG Strategy

- **Strategy:** WTRG's has a three-pronged strategy to grow via utility acquisitions, organic rate base growth and a potential expansion of their market-based businesses.
- **Targeted Growth:** WTRG is targeting a three-year EPS CAGR for 2020 through 2023 of 5-7%, driven by 6-7% water rate base growth and 8-10% gas rate base growth, with ~\$3.0B of capex over the period, excluding acquisitions not already signed. Current rate base is than ~70% Water and ~30% Gas. DPS should grow in line with EPS.
- **Name Change:** In 2020, WTRG changed their name to Essential Utilities, from Aqua America, to align the name with their acquisition of Peoples Gas, a gas utility. Since the Oct. 2018 announcement of the acquisition, investor sentiment on fossil fuels has deteriorated materially.
- **Acquisitive Company:** WTRG seeks to acquire businesses in the regulated sector, which at one point included non-water utilities. At this point, we think that it just includes water and wastewater utilities. They intend to pursue acquisitions in areas near their existing service territories or in new service areas.
- **PA Concentration:** WTRG's largest water operating segment is Aqua Pennsylvania, which accounted for ~54% of '19 revenues and 72% of the regulated water segment's income for 2019. Combine that with the Peoples acquisition, and WTRG is highly concentrated in PA. The state has a top-tier regulatory environment, but we would point out the significant state concentration. That concentration leads us to use to a slightly higher discount rate and lower growth rate for our NAV (pg 4).

Growth Strategy

Core Competencies

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

Which leads to our three-pronged growth strategy.



Valuation – USCA NAV

- **What’s the Right P/E?:** Utilities generally trade on P/E, but what’s the right multiple for a large, publicly traded water company that hits the ESG and renewables metrics when money is flowing into the space at record levels? We weren’t sure we could call that, so we started from a different approach.
- **Dividend Discount Model (DDM):** For our more traditional Midstream universe, we model forward about five years, as we don’t usually see a lot of visibility beyond that. For water companies, the capex and thus growth runway is pretty visible. So for WTRG, we built out a 40-yr model. To arrive at our valuation, we discounted the 40 years of dividends (modeling 5% DPS CAGR 2020-2060) and the terminal value back to present at a 5.5% discount rate. The terminal value assumes WTRG trades at a 4.5% yield in 2060.
- **Bring it Back to P/E:** Despite using a DDM as a backstop for valuation, we still want to use PE multiples for our official NAV calculation. There are a few reasons. One, it aids in comparability across different companies and different types of utilities. Two, it allows us to value different parts of businesses separately – so if there is a company like WTRG with non-water ops, we can apply a different multiple to that income stream (whereas dividends and dividend growth are hard to apportion to separate segments).
- **Final Results:** So with that caveat, we back into what P/E that implies, which is ~29.0x ‘22 earnings and **a \$51/share PT**. We get that this roughly breaks down to a 17x PE multiple for gas assets – in line with the higher quality pure-play gas utilities – and 34x for water assets. The 34x is lower than the multiple we use for AWK’s water assets (41x), but we believe is fair given WTRG’s significant concentration in PA. This concentration both increases the discount rate (larger potential impact from regulatory changes) and decreases the growth rate (fewer opportunities for bolt-on acquisitions), in our view.
- **Sensitivities:** On the next page, we discuss sensitivities to our PT assuming different discount rates, etc.

USCA WTRG NAV Calculation

(\$mm)	2022E
Water Segment Net Income	\$349
P/E Multiple	34.0x
Implied Equity Value	\$11,873
Natural Gas Segment Net Income	\$147
P/E Multiple	17.0x
Implied Equity Value	\$2,504
Other Segment Net Income	(\$37)
P/E Multiple	29.0x
Implied Equity Value	(\$1,062)
Total Equity Value (\$mm)	\$13,316
Shares Outstanding, YE'22	262
Total Equity Value/Sh	\$51
Implied 2021 P/E @ USCA PT	30.5x
Implied 2022 P/E @ USCA PT	29.0x
Implied 2025 P/E @ USCA PT	23.2x
Implied 2030 P/E @ USCA PT	16.3x
Implied 2021 EV/EBITDA @ USCA PT	19.3x
Implied 2022 EV/EBITDA @ USCA PT	18.4x
Implied 2025 EV/EBITDA @ USCA PT	15.8x
Implied 2030 EV/EBITDA @ USCA PT	12.7x



Valuation – USCA NAV Sensitivities

➤ **Sensitivities:** With such a long discount period, our PT is obviously highly sensitive to the cost of equity discount rate, the amount of capital WTRG can continue to deploy, which drives the LT dividend growth assumptions, and finally the assumed terminal value yield.

From our base case PT of \$51/sh (which assumes a 5.5% cost of equity, 6% capex spend (as % of Gross PP&E), 5% LT div growth and a terminal yield of 4.5%), a 50 bps change in any of the assumptions would have the following effects our target PE multiple and PT.

- **Cost of Equity:** A 50 bps increase/decrease in our discount rate would decrease/increase our assumed PE **multiple by ~3.7x, or ~\$6.50/sh.**
- **Capex Spend (as % of Gross PP&E):** A 50 bps increase/decrease in our capex spend would increase/decrease our assumed PE multiple **by ~3.9x, or ~\$6.90/sh.**
- **Dividend Growth (2020-2060):** A 50 bps increase/decrease in our dividend growth assumptions would increase/decrease our assumed PE multiple **by ~3.8x, or ~\$6.60/sh.**
- **Terminal Value Yield:** A 50 bps increase/decrease in our assumed terminal value yield would decrease/increase our assumed PE multiple **by ~1.1x, or ~\$1.90/sh.**

WTRG Price Target Sensitivities

		Cost of Equity				
		5.0%	5.5%	6.0%	6.5%	7.0%
Capex as % of PPE	5.0%	\$44	\$39	\$35	\$31	\$28
	5.5%	\$50	\$44	\$39	\$35	\$31
	6.0%	\$58	\$51	\$45	\$40	\$35
	6.5%	\$66	\$58	\$51	\$45	\$40
	7.0%	\$77	\$67	\$58	\$51	\$45

Current WTRG Price = \$46.62

Implied 2022 P/E Multiple

		Cost of Equity				
		5.0%	5.5%	6.0%	6.5%	7.0%
Capex as % of PPE	5.0%	24.9x	22.1x	19.7x	17.7x	15.9x
	5.5%	28.6x	25.2x	22.4x	19.9x	17.8x
	6.0%	32.8x	28.8x	25.4x	22.5x	20.1x
	6.5%	37.8x	33.0x	29.0x	25.6x	22.7x
	7.0%	43.7x	38.0x	33.2x	29.1x	25.7x

Current WTRG 2022 P/E Multiple = 26.6x

WTRG Price Target Sensitivities

		40-Yr DPS CAGR				
		4.0%	4.5%	5.0%	5.5%	6.0%
Terminal Yield	3.5%	\$42	\$48	\$55	\$64	\$73
	4.0%	\$41	\$46	\$53	\$60	\$69
	4.5%	\$39	\$44	\$51	\$58	\$66
	5.0%	\$38	\$43	\$49	\$56	\$63
	5.5%	\$37	\$42	\$47	\$54	\$61

Current WTRG Price = \$46.62

Implied 2022 P/E Multiple

		40-Yr DPS CAGR				
		4.0%	4.5%	5.0%	5.5%	6.0%
Terminal Yield	3.5%	24.2x	27.6x	31.6x	36.2x	41.7x
	4.0%	23.1x	26.3x	30.0x	34.3x	39.4x
	4.5%	22.3x	25.3x	28.8x	32.8x	37.6x
	5.0%	21.6x	24.5x	27.8x	31.7x	36.2x
	5.5%	21.1x	23.8x	27.0x	30.7x	35.0x

Current WTRG 2022 P/E Multiple = 26.6x

Relative Valuation

WTRG Relative Valuation - Consensus Valuation Metrics

Water Utilities	Ticker	'21 P/E	'22 P/E	'21 EV/EBITDA	'22 EV/EBITDA	'21 Div Yield	'22 Div Yield	EV (\$mm)	Water Customers	EV / Customer
American Water Works	AWK	38.3x	35.5x	19.1x	18.0x	1.4%	1.6%	\$39,673	3,434,000	\$11,553
California Water Service Group	CWT	31.5x	30.2x	14.3x	13.2x	1.7%	1.8%	\$3,784	520,600	\$7,268
SJW Group	SJW	27.8x	25.7x	15.5x	14.6x	2.1%	2.2%	\$3,376	386,607	\$8,733
American States Water Co.	AWR	33.8x	31.7x	19.9x	18.8x	1.7%	1.8%	\$3,496	285,128	\$12,262
Middlesex Water Co.	MSEX	32.8x	31.6x	na	na	na	na	\$1,521	137,315	\$11,075
The York Water Co.	YORW	35.8x	33.7x	na	na	na	na	\$700	71,411	\$9,802
Average Water Utility		33.3x	31.4x	17.2x	16.2x	1.7%	1.8%			\$9,828
Electric Utilities		18.3x	17.3x	11.9x	11.2x	3.9%	4.1%			
Gas Utilities		15.6x	14.9x	10.3x	9.6x	4.2%	4.4%			
Essential Utilities* (USCA)	WTRG	28.0x	26.6x	18.2x	17.4x	2.2%	2.4%	\$17,408	1,026,704	\$12,792

*For WTRG, we removed the value paid for Peoples Gas in the EV/Customer calculation

- **Discounted Valuation – Water Comps:** WTRG trades at a discount to its water peers on a P/E basis, in our view due to the Peoples Gas acquisition, which diluted the pure water franchise and introduced the element of fossil fuel and terminal value risk. On a per-customer basis (excluding the value of the Peoples acquisition), WTRG trades at a premium to its water peers.
- **Premium Valuation – Utility Comps:** Like the bulk of water companies, WTRG trades at a substantial P/E and EV/EBITDA premium to both electric and gas utilities. We think these premiums are warranted given the multi-decadal outlook for above-average growth rates. WTRG multiples are roughly in line with NextEra Energy (NEE), which trades at ~31x, 17x, and 2.0% on 2022 P/E, EV/EBITDA and dividend yield.

Financial Overview



Key Financial Metrics

- **EPS & DPS:** Target of EPS CAGR for 2020 through 2023 of 5-7%, driven by 6-7% water rate base growth and 8-10% gas rate base growth, with ~\$3.0B of capex over the period, excluding acquisitions not already signed. Dividend growth should be in line with EPS growth.
- **Long-term Upside:** Guidance excludes acquisitions, which we think could add 1%/yr, once WTRG has fully incorporates any acquisition via a rate case filing.
- **Funding Capex:** Beyond the recent, ~\$300mm forward equity sale to fund the pending DELCORA acquisition and the ~\$2.7B issued in '19 and '20 to fund the Peoples Gas acquisition, we see WTRG in the market regularly for equity, with amounts and timing dependent on additional acquisitions.
- **Leverage:** Leverage, as measured by FFO/Debt, crept up in 2020 following completion of the Peoples Gas merger, which WTRG financed 38% debt/62% equity. Metrics for 2019 are skewed by the pre-close equity funding and in '20 due to only a partial year of gas earnings. Going forward, we see FFO/Debt hovering just under 13% and Debt/Cap in the high 50% range, sufficient to maintain current credit ratings. WTRG targets are 50-55% thru 2023 and FFO/Debt of 12-14%.
- **Free Cash Flow/Payout:** Typical of utilities, WTRG runs a free cash flow deficit. Target dividend payout ratio is 60-65%, and we see them running slightly above 60%.

WTRG Financial Metrics (\$mm)

	2019	2020	2021	2022	2023	2024	2030
Shares Outs.	216	255	262	262	262	262	262
Market Cap	\$10,108	\$11,935	\$12,260	\$12,263	\$12,268	\$12,272	\$12,280
Net Debt	<u>\$1,205</u>	<u>\$5,522</u>	<u>\$6,132</u>	<u>\$6,695</u>	<u>\$7,218</u>	<u>\$7,736</u>	<u>\$10,936</u>
Enterprise Value	\$11,313	\$17,457	\$18,393	\$18,958	\$19,486	\$20,008	\$23,216
Adj EBITDA	\$542	\$779	\$1,006	\$1,085	\$1,177	\$1,275	\$1,907
EV/EBITDA	20.9x	22.4x	18.3x	17.5x	16.6x	15.7x	12.2x
FFO/Debt	28.1%	10.9%	12.6%	12.3%	12.2%	12.4%	13.2%
Debt/Cap	23.7%	54.1%	54.3%	55.7%	56.7%	57.5%	59.8%
Adj EPS	\$1.47	\$1.60	\$1.67	\$1.76	\$1.87	\$2.05	\$3.12
Change	4.8%	8.6%	4.0%	5.4%	6.8%	9.2%	7.5%
P/E Ratio	31.8x	29.2x	28.1x	26.7x	25.0x	22.9x	15.0x
CFO	\$339	\$600	\$770	\$823	\$883	\$958	\$1,442
CFI	(605)	(4,417)	(1,420)	(1,100)	(1,100)	(1,148)	(1,487)
Other	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
FCF	(\$265)	(\$3,817)	(\$650)	(\$277)	(\$217)	(\$190)	(\$45)
FCF Yield	-2.3%	-21.9%	-3.5%	-1.5%	-1.1%	-0.9%	-0.2%
DPS	\$0.91	\$0.97	\$1.04	\$1.11	\$1.19	\$1.27	\$1.91
Change	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Yield	1.9%	2.1%	2.2%	2.4%	2.5%	2.7%	4.1%
Payout Ratio	62%	61%	62%	63%	63%	62%	61%

WTRG Credit Ratings

Agency	Rating	Outlook
S&P	A	Stable
Moody's	Baa2	Stable

Returns on Invested Capital

WTRG Corporate Returns (\$mm)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Gross PP&E	5,388	5,707	6,088	6,509	7,004	7,648	8,202	11,717	13,137	14,237	15,337	16,484	17,682	18,932
Goodwill + Intangibles	<u>28</u>	<u>31</u>	<u>34</u>	<u>42</u>	<u>42</u>	<u>53</u>	<u>64</u>	<u>2,349</u>						
Gross Cash Invested	5,416	5,738	6,122	6,551	7,046	7,701	8,266	14,066	15,486	16,586	17,686	18,833	20,031	21,281
EBITDA	446	456	455	469	482	498	542	779	1,006	1,085	1,177	1,275	1,366	1,463
CROCI (EBITDA/GCI)	8.2%	8.0%	7.4%	7.2%	6.8%	6.5%	6.6%	5.5%	6.5%	6.5%	6.7%	6.8%	6.8%	6.9%
Inv CROCI (x)	12.1x	12.6x	13.5x	14.0x	14.6x	15.5x	15.2x	18.1x	15.4x	15.3x	15.0x	14.8x	14.7x	14.5x
5-Yr CROCI (%)					1.2%	2.3%	3.4%	4.1%	6.0%	6.3%	6.8%	6.9%	9.8%	7.9%
Inv CROCI (x)					82.9x	44.0x	29.3x	24.5x	16.6x	15.8x	14.7x	14.4x	10.2x	12.7x
ROE (%)	13.4%	12.9%	11.7%	12.7%	12.2%	9.6%	5.8%	6.5%	8.5%	8.6%	8.9%	9.4%	9.7%	10.0%

- **Why the Chart?:** For a couple of years now we have been publishing [reports on corporate level returns](#), looking at them over a long-term horizon. We like to use **CROCI (or Cash Return on Cash Invested)**. **This metric looks at Adjusted EBITDA relative to Gross PP&E + Equity Investments + Goodwill & Intangible Assets + Cumulative Impairments (Gross Cash Invested)**. We feel this metric most appropriate as it looks at unlevered, pre-tax cash returns on cumulative total investment. It is also financing independent. **For this analysis we present the inverse of CROCI, so that gross cash invested is shown as a multiple of EBITDA earned.**
- **Average Returns:** Looking at the weighted average inverse CROCI for 2018 and 2019, midstream companies have invested capital at an average of ~10.7x EBITDA, with a range of 6.5x to 18.2x. We would expect utility returns to be lower, and that's the case for WTRG, with returns more in line with ENB and TRP.
- **ROE:** Here we also show WTRG's ROE (calculated as Net Income/Book Value of Equity), as its value in utility analysis is more significant. ROE has been trending down, from 13% in 2013 to 5.8% in 2019 (big drop driven by equity issuance in 2019, but People's Gas acquisition not closing until 2020). With the benefit of a full year of People's, we see ROE back to 8.5% in 2021, trending to 10% in 2026.

Asset Detail

The Water Business

- **Aging Infrastructure:** This is an old business, where, in aggregate, infrastructure has not been replaced or maintained for decades. The EPA estimates that ~44% of US pipe infrastructure is classified as poor, very poor, or life elapsed. Per the EPA's 6th Drinking Water Infrastructure Needs Survey, almost \$500B is needed to maintain and improve the nation's drinking water infrastructure over the next 20 years. A breakdown by category is shown upper right. Oh, and that \$500B estimate is double that of the first survey completed in 1995.
- **Plus Highly Fragmented:** According to the EPA, ~84% of the US water market is served by municipal systems and ~98% of the country's wastewater systems are government owned – a highly fragmented market ripe for consolidation.
- **Burden of Spend Has Shifted:** Finally, over the past 40 years, the burden for infrastructure spending on water has shifted from the federal level to state and local governments, further straining already tight budgets.
- **Flint Helped Turn the Corner:** Following the water crisis in Flint, Michigan that began in 2014, both PUCs and state, local and federal governments are not only keenly focused on water quality and the need to replace/upgrade aging infrastructure, but also on enabling legislation that provides for M&A, cost recovery and less regulatory lag.
- **...Leaving a Space Ripe for Rate Base Growth and Consolidation:** All of the above leaves a space that is screaming for capital investment and M&A. In states where they operate, WTRG believes there are ~14,000 community water systems of various sizes and ~4,000 wastewater systems. Despite a heavy PA concentration, where AWK is a major competitor in the state, WTRG feels confident they can capture their share of acquisitions in PA, as well as in OH, IL, TX and NC.

Water Infrastructure Needed

Category	\$B
Distribution & Transmission	\$312.6
Treatment	83.0
Storage	47.6
Source	21.8
Other	7.6
Total	\$472.6

Utility Investor Ownership

	Water	Waste water
Private	84%	98%
Investor Owned	16%	2%
Total	100%	100%

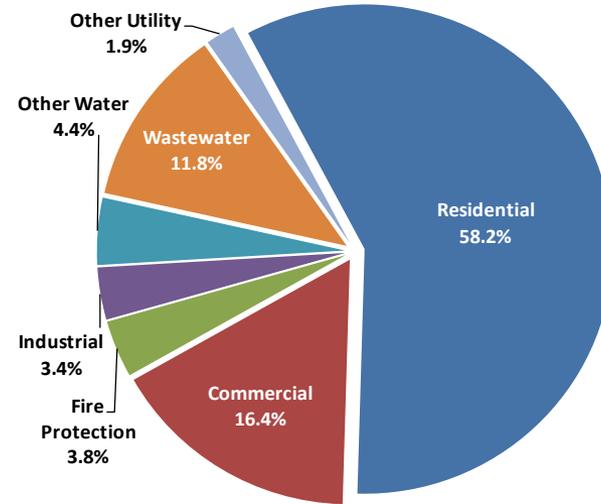
Water Government Funding Shift

	1977	2017
State & Local	37%	78%
Federal	63%	22%
Total	100%	100%

WTRG Water Business (~70% of '21 Operating Inc)

- **Business Mix:** WTRG is the second largest publicly traded water company in the US, operating in eight states (PA, OH, TX, IL, NC, NJ, IN and VA) and serving just over a million customers. About two thirds of revenue and 75% of rate base stems from just two states, PA and OH. The business is primarily water services, with only 12% of revenues generated from wastewater.
- **Growth Strategy:** The company's three-pronged growth strategy involves: 1) Municipal Initiative – buying and then growing rate base of municipally-owned utilities; 2) Opportunistic M&A of large, regulated utilities; and 3) Building their Market-Based Activities businesses that are complementary to the regulated business.
- **Organic Growth:** Excluding acquisitions, WTRG is targeting 6-7% annual rate base growth through 2023, with capex of ~\$550mm/yr. After factoring in ~\$100mm of acquisitions per year, plus the DELCORA acquisition (\$277mm), we estimate rate base growth to average more like 9.7%/yr through 2023.
- **Capex Recovery:** The capex spend, along with operating costs and changes in market conditions is recovered in rates through periodic rate cases in each jurisdiction. WTRG attempts to minimize regulatory lag by filing rate cases and the use, where possible, of forward test years and infrastructure surcharges.
- **Customer Growth:** Organic customer growth is minimal (<0.5%/yr) for water services; with acquisitions, the growth rate for water services is closer to just under ~1%/yr. Customer growth on the wastewater side has been much more robust, ~12%/yr over the past two years, as acquisitions have been more focused on wastewater, particularly in areas where WTRG already provides water service. Overall target is 2-3%/yr customer growth.
- **Earnings Variability:** The vast majority of water customers are metered; wastewater customers are either billed a flat rate or based upon water consumption. So short-term, earnings are seasonal and can vary based on water-use. Over the long term, changes in use patterns are generally recoverable in rates. A 0.5% decrease in residential water consumption decreases revenue by \$2.6mm.

2019 WTRG Revenue By Customer Type





WTRG Water Operations Overview

Regulated Water Segment Data By State - 2019

State	Revenues (\$mm)	% of Total	Rate Base (\$mm)	% of Total
PA	\$479	53.9%	\$3,428	68.3%
OH	108	12.1%	344	6.8%
TX	73	8.2%	357	7.1%
IL	75	8.4%	298	5.9%
NC	56	6.3%	229	4.6%
Other States*	<u>95</u>	<u>10.7%</u>	<u>362</u>	<u>7.2%</u>
State Total	886	99.6%	\$5,018	100.0%
Other	<u>3</u>	<u>0.4%</u>		
Total	\$890	100.0%		

* Includes NJ, IN and VA

WTRG Water Segment (\$mm)

	2020	2021	2022	2023	2024
EBITDA	\$581	\$694	\$748	\$803	\$860
Change	5.7%	19.5%	7.8%	7.3%	7.2%
Capex	\$571	\$970	\$700	\$700	\$748
Rate Base	\$5,416	\$6,188	\$6,669	\$7,132	\$7,626
Change	11.5%	14.3%	7.8%	7.0%	6.9%
Customer Growth	2.0%	7.0%	2.0%	1.5%	1.5%

Regulatory Environment

- **Current Metrics:** WTRG does not provide detailed rate metrics by jurisdiction, but we estimate they earn about a 10.5% ROE on their ~\$5B rate base, assuming a weighted average 52% equity layer.
- **Timely Recovery:** The company has worked to structure regulatory mechanisms that minimize regulatory lag. Over 50% of their capex (related to replacing and rehabilitating infrastructure) is eligible for recovery through various surcharges and the remaining amount through traditional rate recovery. PA, IL and IN have forward test years.

Regulatory Overview

State	Rate Base (\$mm) (12.31.19)	Regulatory Trackers			
		DSIC	Infrastructure Surcharges	Forward Looking	Consolidated Tariffs
PA	\$3,428	Yes	Yes	Yes	Yes
OH	344	Yes	Yes		Yes
TX	357	Yes			Yes
IL	298	Yes	Yes	Yes	Yes
NC	229	Yes	Yes		Yes
NJ	200	Yes	Yes		Yes
IN	84	Yes	Yes	Yes	Yes
VA	78		Yes		Yes
Total	\$5,018				

- **Pending Rate Cases:** WTRG has rate cases pending in NJ, VA and IN (combined 7% of water rate base), requesting a total \$3mm revenue increase. Their operations are composed of 47 rate divisions, each of which requires a separate rate filing, although they are working to consolidate and reduce the number of filings.
- **COVID Implications:** The COVID-19 pandemic may limit or curtail the ability of PUCs to approve or authorize rate increases or surcharges. Some states have mandated the temporary curtailment certain collection practices, such as disconnections from utility service. Although it is likely to impact investment recovery over the near term, we view this as temporary, with capex recovered over the long term.

WTRG Shut-Off Moratoriums

State	Moratorium Lift
PA	11/9/2020
NJ	3/15/2021
OH	9/1/2020
IL	8/26/2020
IN	8/17/2020
TX	6/13/2020
VA	10/5/2020
NC	9/1/2020
KY	10/20/2020
WV	7/1/2020

Acquisition Environment

- **Background:** Water is a highly fragmented market ripe for consolidation. Increasingly stringent environmental and water quality regulations, massive amounts of infrastructure in need of significant capital investment, financial challenges and enabling industry legislation are driving more municipalities to consider selling their water and wastewater assets.
- **WTRG Strategy:** A fundamental aspect of WTRG's growth strategy is the acquisition of municipal water and wastewater systems in areas where they already operate. If appropriate, they would consider going outside their current jurisdictions. They also look to larger M&A. Beyond an outsized spend in 2021 due to the pending DELCORA acquisition, we see them spending ~\$100mm/yr on acquisitions, which at a multiple of ~\$5,000/customer acquisition cost, adds ~1% of EPS accretion over time as they work through rate cases.
- **Current Activity:** WTRG has acquisitions announced but not yet closed totaling ~\$420mm of investment and is activity pursuing acquisitions in most of their states totaling ~340k customers.
- **Enabling Legislation:** All of WTRG's regulated subs except VA have access to fair market value (FMV) legislation for private sector investment in water and wastewater systems – that legislation was passed in NC, OH, TX and VA in the past three years. All of the states where WTRG operates have passed water quality accountability legislation, an emerging trend which is likely to help accelerate the pace of acquisitions.
- **DELCORA:** In Sept. 2019, WTRG agreed to acquire the wastewater utility system of the Delaware County Regional Water Quality Control Authority (DELCORA), which consists of ~200k wastewater customers, for \$277mm. In late December, a Delaware County [court ruled](#) that WTRG's agreement to acquire DELCORA along with creation of a customer trust are valid and enforceable. The decision is subject to appeal. The purchase is still awaiting approval of the PA PUC – recently, two ALJs [issued a recommendation](#) against the sale and a public meeting is scheduled for March 11. WTRG expects to close in Q2'21.

WTRG Water Acquisitions

Year	Number	Cost (\$mm)	Customers	Cost per Customer
2019	8	\$60	12,000	\$4,974
2018	9	\$146	14,158	\$8,289
2017	4	\$6	1,003	\$5,842
2016	19	\$22	6,577	\$3,386
2015	15	\$29	10,579	\$2,740
2014	16	\$11	6,148	\$1,713
2013	15	\$15	5,991	\$2,503

WTRG Acquisition Analysis

EBITDA/Customer	\$550
Acquisition Spend (\$mm)	\$100
Cost/customer (\$)	\$5,000
Customers acquired	20,000
EBITDA acquired (\$mm)	\$11
Interest Rate	4.0%
Interest Expense	(\$4)
DD&A	<u>(\$3)</u>
Pre-tax income	\$5
Income taxes (25%)	<u>(\$1)</u>
Net Income	\$3
EPS	\$0.013
% Accretion	0.8%

WTRG Gas Businesses (~30% of Op. Inc.)

- **Peoples Gas Acquisition:** WTRG's March 2020 acquisition of Peoples Gas for \$4.3B marked their entry into the gas utility business and diversification away from being a pure water utility.
- **Stats:** The LDC has utilities in three states, PA, KY and WV, but ~93% of its customers are in PA, where they are the largest utility in the state. Rate base is \$2.3B and, although their last PA rate case completed in Oct. 2019 was a black box settlement, we assume a 50% equity layer and a ~10% earned ROE.
- **Capex on the Rise...:** Although capex has averaged ~\$245mm/yr over the past three years, going forward, WTRG is projecting \$400-\$450mm/yr. The majority of that is to replace ~2,600 miles of bare steel and cast iron pipe at a rate of ~190 miles/yr. Capex also includes ~\$120mm over a two-year period to built three gas-fired power plants on customer-owned property as well as well as \$120mm to replace gathering pipe over a seven-year timeframe.
- **... Which Drives Growth:** With DD&A currently running ~\$130mm/yr, the elevated spending should lead to their projected 8-10% rate base growth at least through 2023.
- **Good Regulatory Recovery Mechanisms:** About 59% of Peoples' projected capex is recoverable through a Distribution System Improvement Charge (DSIC). The remainder is recoverable through traditional rate making. In August'20, Peoples filed with the PA PUC requesting accounting treatment for the ~\$380mm catch-up deduction for the tax repair eligible capital invested prior to WTRG's ownership of Peoples. Essentially it would allow a tax deduction for investments that were previously capitalized for tax purposes. Peoples has proposed to PA PUC a 60/40 sharing mechanism (40% customers amortized over four years as a bill credit). The remaining 60% of the benefit to Peoples (\$228mm) would be deferred and amortized to income tax expense over a three-year period from 2023 through 2025 - split 5% in 2023, 35% in 2024 and the remaining 60% in 2025. The amortization helps support WTRG's growing capex program without raising rates. That tax deduction fills the gap between the allowed and earned ROE as rate base increases. They would later file to have new rates to go into effect in 2026. The litigation schedule calls for final reply briefs to be filed March 4, 2021.

WTRG Gas Segment (\$mm)

	2020*	2021	2022	2023	2024
EBITDA	\$206	\$312	\$336	\$374	\$415
Change		51.5%	7.8%	11.3%	10.8%
Capex	\$277	\$225	\$450	\$400	\$400
Rate Base	\$2,280	\$2,401	\$2,737	\$3,013	\$3,279
Change		5.3%	14.0%	10.1%	8.8%

*Assets acquired March 2020 - so only partial year of EBITDA/capex

Institutional Holdings and Trading Patterns

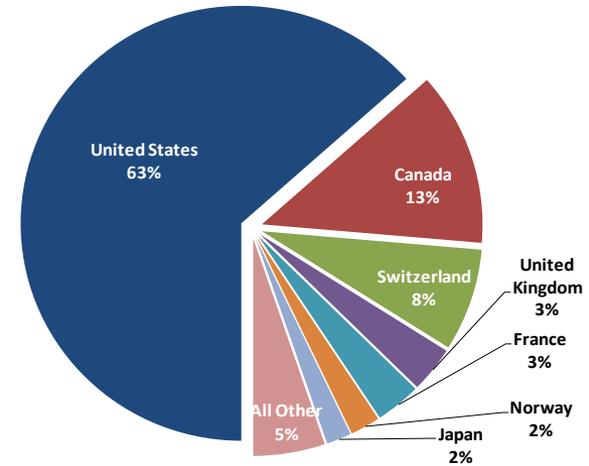


Institutional Holdings

Top 30 Holders of WTRG

Rank	Holder Name	Country	Shares	% of Outstanding	Cumulative
1	Vanguard Group	United States	24,432,711	10.0%	10.0%
2	BlackRock	United States	22,512,254	9.2%	19.1%
3	Canada Pension Plan Investment	Canada	21,661,095	8.8%	28.0%
4	Pictet Funds SA	Switzerland	11,812,040	4.8%	32.8%
5	State Street Corp	United States	9,807,945	4.0%	36.8%
6	Zimmer Partners LP	United States	8,529,478	3.5%	40.3%
7	Norges Bank	Norway	3,887,287	1.6%	41.9%
8	Impax Asset Management Group PLC	United Kingdom	3,339,024	1.4%	43.2%
9	Bank of New York Mellon	United States	2,556,494	1.0%	44.3%
10	Northern Trust Corp	United States	2,536,026	1.0%	45.3%
11	Invesco Ltd	United States	2,531,227	1.0%	46.3%
12	Geode Capital Management LLC	United States	2,511,138	1.0%	47.3%
13	Legal & General Group PLC	United Kingdom	2,459,558	1.0%	48.3%
14	Jennison Associates LLC	United States	2,230,824	0.9%	49.2%
15	Morgan Stanley	United States	2,222,674	0.9%	50.2%
16	Credit Agricole Group	France	2,039,520	0.8%	51.0%
17	Government Pension Investment Fund	Japan	2,029,967	0.8%	51.8%
18	Nuance Investments LLC	United States	2,018,269	0.8%	52.6%
19	First Trust Advisors LP	United States	1,887,114	0.8%	53.4%
20	Franklin Resources Inc	United States	1,764,247	0.7%	54.1%
21	FIL Ltd	Bermuda	1,536,017	0.6%	54.8%
22	Allianz SE	Germany	1,519,759	0.6%	55.4%
23	BNP Paribas SA	France	1,443,269	0.6%	56.0%
24	Legg Mason Inc	United States	1,358,951	0.6%	56.5%
25	Duff & Phelps Investment Management	United States	1,225,851	0.5%	57.0%
26	Charles Schwab Corp	United States	1,176,777	0.5%	57.5%
27	UBS AG	Switzerland	1,139,249	0.5%	58.0%
28	Principal Financial Group Inc	United States	1,126,368	0.5%	58.4%
29	Royal Bank of Canada	Canada	1,076,919	0.4%	58.9%
30	State of California	United States	987,362	0.4%	59.3%
Total			145,359,414	59.3%	

Holders By County*



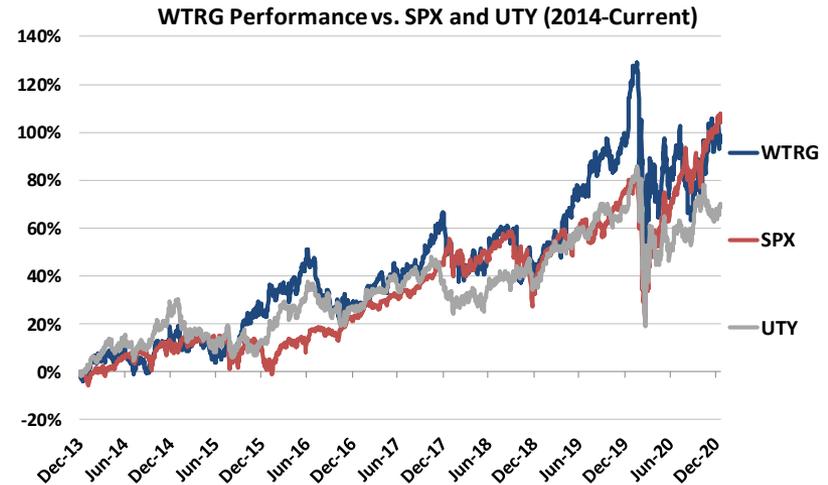
*Does not include ~64mm shares (~25% of outstanding) held by people/institutions that do not report quarterly holdings.

WTRG Insider Holdings

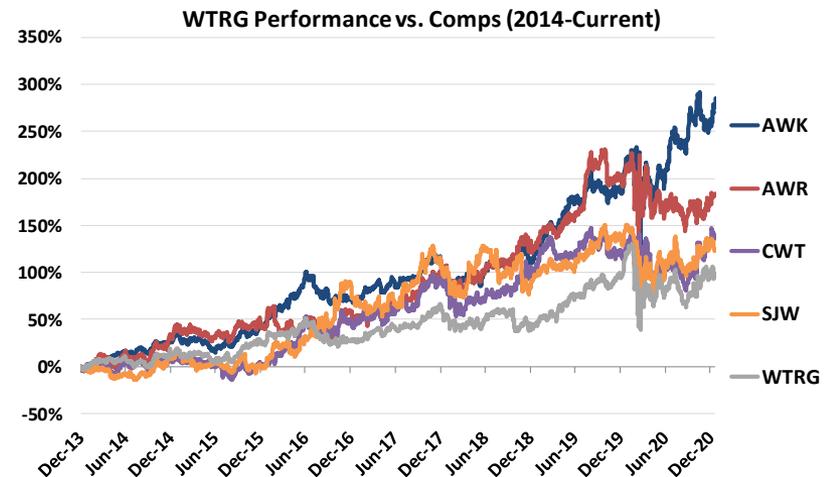
Name	Position	Shares
Christopher Franklin	CEO	144,768
Robert Rubin	CAO	91,837
Christopher Luning	General Counsel	46,367
Daniel Schuller	CFO	34,830
Ellen Ruff	Director	31,104
Richard Fox	COO	27,022
Nicholas DeBenedictis	Former CEO	25,284
Daniel Hilferty	Director	19,584
All Others		42,410
Total		463,206

Trading Patterns

➤ **WTRG vs. Indices:** Since the end of 2013, WTRG stock performance has been right in line with S&P 500, up ~100% over seven years. This has been good enough to outpace the broader utility index by ~2,900 basis points.



➤ **WTRG vs. Water Peers:** However, compared with other pure water utilities, WTRG comes in at the back of the pack, as the other four companies included in the chart to the right are up on average ~180% since 2013. We think the underperformance vs. peers is due to their overearning in the '11-'14 period, following implementation of the repair tax, and thus higher EPS growth during the period. Then from '15-'19, EPS growth was roughly half rate base growth, as ROEs moderated. They are now in period where rate base growth should roughly correspond to EPS growth. Over the past year, we also think WTRG's underperformance is a result of their diversification into the gas utility business.



ESG, Management, Board and Risk Factors

ESG

- WTRG published their 2019 ESG report in October 2020. The report follows a number of reporting frameworks, including those set out by SASB and TCFD. Some additional corporate governance highlights per the latest proxy follow:
 - Appropriately sized board – 9 members
 - Average tenure of director nominees – ~6.2 years
 - Average age of director nominees – ~60.6 years
 - Diversity – 33% of Board is female; >55% is diverse
 - Independence – 78% independent (7 of 9)
 - Term limit – 15-yr term limit for those elected after 2015
 - Stock ownership policy for directors of 5x annual base cash retainer
 - Mandatory retirement age of 75 for directors
 - All directors elected annually
 - No poison pill
 - Prohibit all directors from engaging in hedging or pledging activities with respect to any owned shares or outstanding equity awards. Specifically prohibits all insiders from engaging in any short sales of WTRG’s securities, buying or selling puts, calls or other derivative securities relating to WTRG’s securities, or pledging the WTRG’s securities as collateral for a loan

ESG

- Published first Corporate Social Responsibility report in 2018.
- Joined the CDP, an international non-profit organization that runs a global disclosure system for companies to manage their environmental impacts. For 2019, WTRG's CDP rank improved to a B-, ranking them among the top 40% of US companies and among the top 25% of worldwide companies in terms of its understanding of climate change impact on business and the positioning of senior leadership to oversee key environmental issues.
- Publishes summaries of their ESG policies ("[Tear Sheets](#)") that contain additional disclosures of relevant metrics to WTRG's business as well as those included in the Sustainability Accounting Standards Board (SASB) for the infrastructure sector and the UN's Sustainable Development Goals.
- **Targets:**
 - By 2035, will reduce their annual Scope 1 and 2 emissions by 60% from a 2019 baseline.
 - In 2019, WTRG signed an agreement for their NJ, PA, OH and IL water and wastewater subsidiaries to purchase 100% renewable power by 2022. Those commitments should reduce WTRG's overall absolute greenhouse gas emissions by nearly 60% from a 2018 baseline and will increase their share of renewable energy in their water business from 5% to 60%.
 - Have a multi-year plan to increase diverse supplier spend to 15%.
 - Have a multi-year plan to achieve diversity with 17% employees of color.
- **Management Bonus Metrics (2020):**
 - **Annual Cash Incentive Awards:** 35% EPS (at least \$1.50/sh), 15% ROE (at least 5.77%), 20% safety, 10% environmental stewardship, 10% customer satisfaction, 10% individual performance
 - **Long-Term Performance Plan:** 35% RSU (restricted stock units) and 65% PSUs (performance stock units). PSUs allocated 38% to relative shareholder return vs. peer group, 31% on three-year O&M and 31% on rate base growth through acquisitions.
 - **Employee stock ownership guidelines:** As a multiple of annual base salary. CEO 5x and named executive officers and EVPs, 3x.

Management Bios

Christopher H. Franklin (Chairman and CEO) Mr. Franklin has been Chairman since January 2018 to present and President and CEO since July 2015. Prior to that, he was EVP and President and COO of Regulated Operations from January 2012 to July 2015; Regional President – Midwest and Southern Operations and SVP, Corporate and Public Affairs from January 2010 to January 2012; Regional President – Southern Operations and SVP, Public Affairs and Customer Operations from February 2007 to January 2010; VP, Public Affairs and Customer Operations from May 2005 to February 2007; VP, Corporate and Public Affairs from February 1997 to May 2005; and Manager Corporate and Public Affairs from December 1992 to February 1997.

Richard S. Fox (EVP and COO) Mr. Fox was named to his current role in July 2015. Prior to that, he was Regional President, Regulated Utilities from January 2012 to July 2015; and President Aqua Utilities, Florida, Inc. from August 2011 to January 2012. Prior to assuming the role of regional president, Fox was VP, Customer Operations, where he was responsible for all customer service operations for WTRG including the national customer call centers, national meter operations and company-wide billing and collections, from June 2002 to August 2011. He joined the company in 2002 following 17 years in the chemical manufacturing industry.

Daniel J. Schuller (EVP and CFO) Mr. Schuller was named to his current role in October 2018. He was previously EVP of strategy and corporate development, a role he held since joining WTRG in 2015. Schuller joined the company from J.P. Morgan Asset Management – Infrastructure Investments Group, where he served as an investment principal from 2007 to 2015, providing strategic leadership as a director of portfolio companies, including SouthWest Water Company and Summit Utilities. Prior to J.P. Morgan, Schuller was a manager at Mars & Co., an international strategy/general management consulting firm.

Christopher P. Luning (EVP, General Counsel and Secretary) Mr. Luning has held his current role since 2012. Previously, he was VP, Corporate Development and was responsible for leading the Company's corporate development activities. He joined WTRG in 2003 as assistant general counsel and in 2005 was promoted to VP and deputy general counsel. Prior to joining the Company, Luning worked at Hovnanian Enterprises, Inc., a NYSE-traded home builder, and as an attorney in private practice.

Matthew R. Rhodes (EVP, Strategy and Corporate Development) Mr. Rhodes was named to his current role in June 2018, following 11 years in the investment banking division at Goldman Sachs, as a managing director in the global natural resources group. Rhodes led the coverage effort for more than 25 electric and gas utility clients and executed numerous M&A and financing transactions. Prior to Goldman Sachs, Rhodes worked at Bank of America and Duke Capital Partners.

Board of Directors

Christopher Franklin (Chairman) See bio under Management.

Elizabeth B. Amato (Director since 2018) Ms. Amato has been EVP and chief human resources officer of United Technologies Corp. (UTC) since November 2015. Prior, she was SVP, human resources and organization of UTC from August 2012 to November 2015, with global responsibility for UTC's human resources and communications functions. Amato joined UTC in 1985 at Pratt & Whitney and has held a variety of the most senior human resources leadership positions across the corporation in both aerospace and commercial building systems, including UTC Climate, Controls & Security (2011-2012), Carrier (2010-2011), Pratt & Whitney (2006-2009) and Sikorsky (1997-2006).

Nicholas DeBenedictis (Chairman Emeritus) Mr. DeBenedictis was chairman and CEO of the Company from June 1993 to July 2015. Prior to joining WTRG, DeBenedictis spent three years as SVP of corporate and public affairs for PECO Energy. He served in two cabinet positions in Pennsylvania government: secretary of the Department of Environmental Resources (1983-1986) and director of the Office of Economic Development (1981-1983). Before joining the cabinet, he spent eight years (1973-1981) with the U.S. EPA, first as the assistant regional administrator for Region 3, based in Philadelphia, before working in Washington, D.C. from 1980-1981. He currently serves on the policy committee of the Pennsylvania Business Council and is a former chairman of the council. He also serves on the board of directors for many regional businesses and economic and environmental organizations including: Drexel University, Exelon Corporation, PNC Bank - Southeast Pennsylvania Advisory, P.H. Glatfelter Company and Independence Blue Cross.

Wendy A. Franks (Director since 2020) Ms. Franks is a senior principal at CPPIB, a Canadian pension fund with CAD\$330+ billion, where she is part of the relationship investments team, responsible for sourcing and evaluating potential relationship investment opportunities, monitoring portfolio company performance and development of the business network. Franks leads the group's efforts in financial institutions and utilities and renewables. Prior to joining CPPIB, she was an associate principal at McKinsey & Co. She is currently a member of the board of directors of ReNew Power, the largest renewable energy independent power producer in India.

Daniel J. Hilferty (Lead Independent Director, Director since 2017) Mr. Hilferty is president and CEO of Independence Blue Cross. He previously served as SVP of corporate and government affairs at Mercy Health Corporation, as well as president and CEO of AmeriHealth Caritas Family of Companies. He is chairman of the board of directors for the Blue Cross Blue Shield Association and serves on the executive committee of the board of directors of America's Health Insurance Plans.

Board of Directors

Francis Idehen (Director since 2019) Mr. Idehen is the COO for GCM Grosvenor, one of the world's largest independent alternative asset management firms with more than \$55B in assets under management. In his current role, held since 2017, Idehen is responsible for overseeing the company's core operations functions, including fund finance, corporate finance, technology, compliance and legal. He is also a member of the firm's operations committee and labor impact fund investment committee. Before joining GCM Grosvenor, Idehen held senior roles at EXC from 2011-2017, serving as treasurer, head of investor relations and managing director of Exelon's investment office. Previously, Idehen was a senior portfolio manager at Intel Corporation. Prior to working at Intel, Idehen held various finance positions at Lehman Brothers, J.P. Morgan Chase & Company, Streamline Capital, LLC and Goldman, Sachs & Company.

Ellen T. Ruff (Director since 2006) Ms. Ruff is a partner in the law firm of McGuire-Woods, LLP. Ruff has more than 30 years of utility experience, in various management, operations, legal planning and public affairs positions. Most recently, she was president, office of nuclear development, for DUK, from December 2008 until her retirement in January 2011. From April 2006 through December 2008, Ruff was president of Duke Energy Carolinas. Ruff joined DUK in 1978 and during her career held a number of key positions, including: VP and general counsel of corporate, gas and electric operations; SVP and general counsel for DUK; SVP of asset management for Duke Power; SVP of power policy and planning; and group VP of planning and external affairs. Ruff is also a director of Mistras Group, Inc.

Lee C. Stewart (Director since 2018) Mr. Stewart is a private financial consultant with more than 40 years of experience as an investment banker, corporate executive and professional director. He was VP at Union Carbide Corporation from 1996 to 2001, where he was responsible for various treasury and finance functions, and from 2001 to 2002 was CFO of Foamex International, Inc. Stewart was a director of ITC Holdings Corp. from 2005 to 2016 when ITC was acquired by Fortis. Stewart also served as a director of AEP Industries, Inc., a chemical company listed on the Toronto Stock Exchange, from 2000 until its sale in 2011, and Momentive Performance Materials Inc., a specialty chemical company in silicone and advanced materials, from May 2013 through its successful emergence from bankruptcy in October 2014. He has been director of P.H. Glatfelter, a New York Stock Exchange-listed global supplier of specialty papers and engineered materials, since 2002 and is also director of Mood Media, Inc.

Christopher Womack (Director since 2019) Mr. Womack has served as president, external affairs for SO since December 2008. He has worked in various executive leadership positions at SO since 1988, including as EVP of Georgia Power Company from March 2006 to December 2008; SVP of fossil and hydro power, Georgia Power Company from December 2001 to March 2006; and SVP of Human Resources from March 1998 to December 2001. From 1979 to 1987 he served as a legislative aide in the U.S. House of Representatives.

Risk Factors

- **Industry-Wide Risks:** WTRG is subject to many of the same risks that the bulk of the industry faces, including environmental rules and regulations, extensive regulation by state PUCs and other regulatory agencies, access to capital markets, accessing water and water rights, water quality standards, potential condemnation and eminent domain, regulatory lag, changes in tax rates, variations in weather (drought and rationing plans), aging infrastructure, potential water contamination, executing on acquisitions, technology disruptions, cyber attacks, the ability to hire, train and utilize qualified personnel and impacts from the COVID-19 pandemic, including higher bad debt expense and delays in obtaining rate increases.
- **Stringent Water Standards:** WTRG's operations and the quality of water they are subject to extensive and increasingly stringent environmental, water quality and health and safety laws and regulations, including with respect to emerging contaminants, compliance with which could impact both operating costs and capital expenditures, and violations of which could subject them to substantial liabilities and costs, as well as damage to their reputation.
- **Water Availability:** Limitations on availability of water supplies or restrictions on WTRG's use of water supplies as a result of government regulation or action may adversely affect their access to sources of water, ability to supply water to customers or the demand for water services. As a general rule, sources of public water supply, including rivers, lakes, streams and groundwater aquifers, are held in the public trust and are not owned by private interests. As a result, they do not own the water that they use in their operations, and the availability of their water supply is established through allocation rights (determined by legislation or court decisions) and passing-flow requirements set by governmental entities.
- **Eminent Domain:** The bulk of WTRG's regulated assets could be acquired by state, municipal or other government entities by eminent domain, the right of purchase reserved by an entity the original contract was granted.
- **Natural Gas:** Gas distribution activities inherently involve a number of hazards and operational risks, such as leaks, accidental explosions, and third-party damage. Peoples' revenues are temperature sensitive and vary from year to year, depending on weather conditions.

Important Disclosures

ANALYST CERTIFICATION We, Becca Followill and James Carreker, do hereby certify that the recommendations and opinions expressed in this presentation accurately reflect our personal views about any and all of the subject securities or issues discussed herein. Furthermore, no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed herein. We do not own any shares directly or indirectly (or any derivative thereof) of the company that is subject to this research report. Neither we nor any member of our households serves as an officer, director or advisory board member of any company that is subject to this presentation.

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Important Disclosures

Opinion Key:

USCA uses a Buy, Overweight, Hold, Underweight and Sell rating system.

BUY - The stock has among the best combination of risk/reward and positive company specific catalysts within the sector. Stock is expected to trade higher on an absolute basis and be a top performer relative to peer stocks over the next 12 months.

OVERWEIGHT - The stock has above average risk/reward and is expected to outperform peer stocks over the next 12 months.

HOLD - The stock has average risk/reward and is expected to perform in line with peer stocks over the next 12 months.

UNDERWEIGHT - The stock has below average risk/reward and is expected to underperform peer stocks over the next 12 months.

SELL - The stock's risk/reward is skewed to the downside with possible negative company specific catalysts or excessive valuation. The stock is expected to trade lower on an absolute basis and be among the worst performers relative to peer stocks over the next 12 months.

Risks that may impede achievement of price target(s):

Industry wide risks include but are not limited to environmental and regulatory for both pipeline and E&P, aging infrastructure and availability of midstream infrastructure to accommodate new production. Competition for and availability of service crews and drilling rigs. Commodity prices, the economic outlook, access to capital markets. Interest rates. Asset recontracting. Cost overruns.

Important Disclosures

Price Target Methodology:

Utilities

We value utilities on a P/E basis.

C-Corps

For C-Corps, our price targets are based on a sum-of-the parts analysis. In our sum of the parts analysis, we value various business segments on a multiple of forward year(s) EBITDA, with multiples ranging from 3.5 to 13x. The spectrum reflects a wide range of contract lives, commodity sensitivity, volume risk, customer risk, cash flow visibility, growth outlook, etc. LP units are valued at our LP price target. GP values are determined by allocating a proportionate share of the consolidated equity value commensurate with the percent of total distributions the GP receives. We then net out C-Corp level debt and add back in forward year GP distributions received.

MLPs

For MLPs, our price targets are also based on a sum-of-the parts analysis. We value various business segments on a multiple of forward year(s) EBITDA, with multiples ranging from 4x to 13x. The spectrum range reflects a wide range of contract lives, commodity sensitivity, volume risk, customer risk, cash flow visibility, growth outlook, etc. We then net out forward year debt and minority interest to arrive at a consolidated equity value. From there we allocate equity value to the MLP based on the proportionate share of distributions the LP receives and add back in forward year distributions to be received.

MLP yield refers to the cash distributions paid out by the MLP, part of which may be treated as a return of capital rather than interest or capital gains.

Important Disclosures

Distribution of Ratings (as of January 21, 2021):

Recommendation	Count	Percent	Investment Banking Relationship	Count	Percent
Overweight/Buy	31	65%	Overweight/Buy	3	10%
Hold	17	35%	Hold	1	6%
Underweight/Sell	0	0%	Underweight/Sell	0	0%

Historical Ratings and Price Targets may be found by clicking the link below:

[USCA Rating and Price Target History](#)

[USCA Glossary](#)

For a hard copy of our price target/ratings history or a hard copy of any report, please call 888-601-USCA (8722), or write to U.S. Capital Advisors, 4444 Westheimer Suite G500, Houston TX 77027.

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