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Today's featured company is:



AMERICAN WATER

The Value of Water

American Water Works Company, Inc. (NYSE: AWK) is the largest and most geographically diverse publicly traded U.S. water and wastewater utility company. Marking its 130th anniversary this year, the company employs 6,700 dedicated professionals who provide regulated and market-based drinking water, wastewater and other related services to an estimated 15 million people in 47 states and Ontario, Canada. More information can be found by visiting **www.amwater.com**.

- EPS Growth: Industry Leading 7-10%*
- Dividend Growth: 11% Since 2012 (Top Quartile in Utilities)
- Market Cap: >$13 Billion
- Total Shareholder Return: 30% for the 12 Months Ended Mar 31, 2016
- Dividend Yield: ~2%

*Compounded growth rate for 2016 to 2020, based on 2014 adjusted earnings.

Adviser Access spoke to **CFO Linda Sullivan** about the company's growth plan.

Advisor Access: ***Can you give us a brief overview of American Water?***

Linda Sullivan: American Water is a unique company for three reasons. First, as the largest and most geographically diverse water utility in the United States, we are in a unique position to consolidate the highly fragmented U.S. water market and to make needed critical infrastructure investments. Second, we have some of the most talented and experienced employees in the water industry. Third, we have a history of strong earnings and dividend growth. Executing on our long-term plan will position American Water to continue leading the industry in earnings per share growth.

Our market capitalization is currently greater than $13 billion. In 2015, we recorded $3.2 billion in operating revenue, about 86% of which was from our regulated utility business and 14% from our market-based businesses.

We operate in multiple stages of the water cycle: treatment and delivery of potable water; collection and treatment of waste water; designing, building and constructing water and wastewater facilities. In addition, we leverage our core competencies to provide services to customers through our market-based businesses..

AA: ***What are some of the key challenges that the water industry faces today?***

LS: The two key challenges facing the water industry are: 1) water supply and 2) the critical need to upgrade and replace the nation's aging water and wastewater infrastructure.

Let me start with water supply. The California drought has captured headlines in the U.S., but water supply issues extend beyond the traditionally dry states like California and Texas. In fact, 40 of the 50 state water managers in the U.S. have said they have concerns about water shortages over the next 10 years.

"...40 of the 50 state water managers in the U.S. have said they have concerns about water shortages over the next 10 years."

Although water is a renewable resource, fresh water represents only about 2.5% of our total global water supply. Water scarcity is increasing as fresh water demands intensify on available water supplies, like we are seeing in California today. Managing water supply holistically is important whether it's related to drought or flooding.

At American Water, we see this as an opportunity to provide solutions to water supply issues. We are focused on three areas: conservation, water reuse and new sources of fresh water such as desalination.

Related to the challenge of water supply is the challenge of aging infrastructure. Of the 1 million miles of water pipe in the U.S., a major water main breaks every two minutes, and 2 trillion gallons of treated water are lost every year at a cost of about $2.6 billion. With 700,000 miles of sewer mains, more than 900 billion gallons of untreated sewage is discharged in the U.S. every year.

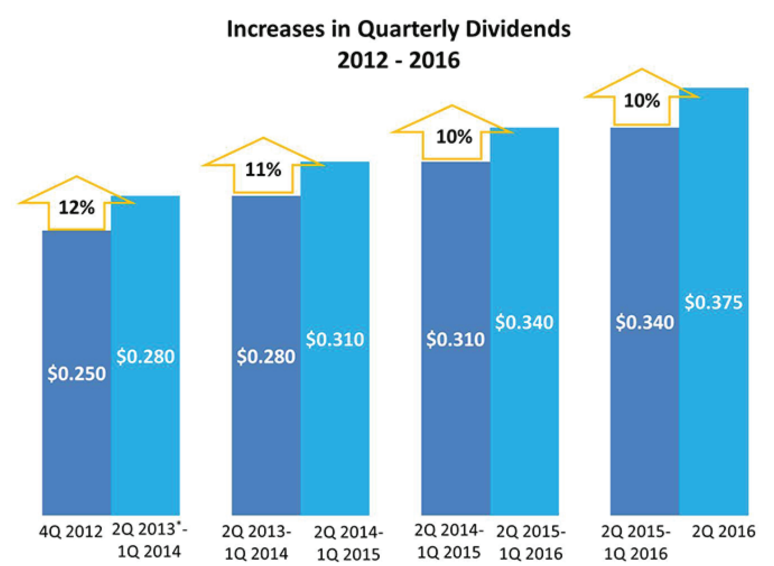
Over the next 25 years, it is estimated the U.S. needs to invest over $1 trillion to repair, replace and expand water and wastewater infrastructure.

The industry average pipe replacement rate is just under 250 years. American Water is replacing more aggressively than that, on a cycle of less than 125 years. Our goal is to reach a 100 year replacement rate. Our planned capital program over the next five years is in excess of $6.4 billion. An important aspect of that investment is it is balanced by cost controls to reduce the annual impact on our customer bills to about 2.6% across most of the states in which we operate.

AA: ***Given your experience with electric utilities, what are the biggest differences between electrics and water utilities?***

LS: Water differs in four big ways: 1) the opportunity for market consolidation, 2) the amount of required investment, 3) the smooth, consistent quality of capital deployment, and 4) the local, personal nature of the service.

The water industry is highly fragmented. While a majority of all electricity is generated by investor-owned utilities, it's almost the opposite in the water industry, where municipalities or governmental entities own or manage 84% of the nation's water systems and up to 98% of the wastewater industry. This highly fragmented market presents American Water with consolidation opportunities.



*The dividend normally paid in 1Q 2013 was accelerated and paid in late December 2012, to allow shareholders to take advantage of 2012 dividend tax rates.

The investment needed in the nation's infrastructure is massive. Recent estimates indicate the required investment to replace and expand water infrastructure in the U.S. exceeds $1 trillion over the next 25 years. There is a multi-decade need for infrastructure investment in the water industry. That need exists in the electric industry as well, but not to the same extent.

The deployment of capital is much smoother in the water industry than with gas and electric utilities. We tend to have a large number of small projects geared towards asset renewal or replacement. The electrics, on the other hand, typically have infrastructure replacement combined with very large projects like generating stations or transmission lines.

Finally, water is a very local and personal business. Our customers ingest the water we provide. So our focus is on providing safe, clean, reliable and affordable service. The customer is at the center of all we do.

AA: ***Utility investors tend to focus on dividends a lot. How should we think about dividend payouts in the future?***

LS: We have been one of the fastest dividend-growing utilities in the nation. This year, once again, we increased our dividends by about 10%. This is the fourth consecutive year of double-digit increases in our dividend, which is an important part of our ability to attract capital for investment to ensure safe, clean and reliable water services for our customers.

Our target dividend payout ratio is between 50% and 60% of earnings. And we expect to increase future dividends in line with earnings growth. We are currently in the lower end of that target payout ratio, so we have some room for growth.

AA: ***Acquisitions have played a big role for American Water. What is your strategy for acquisitions?***

LS: The water and wastewater industry is highly fragmented, lending itself to consolidation. In fact, in 2013 and 2014, we closed on acquisitions with about 34,000 customers. Last year, we acquired 24,000 customers. And during the first quarter of 2016, we closed on 7 acquisitions in 6 states, welcoming approximately 7,000 new water and wastewater customers. As of May 2016, we also had pending agreements to acquire an additional 37,000 customers in 4 states. This includes 31,000 pending wastewater customers in Scranton, PA, who we already provide with water service. We focus on both water and wastewater acquisitions. There is a significant growth opportunity for us in wastewater. We serve roughly 3.2 million metered customers in our regulated business, but only about 150,000 wastewater customers. Adding wastewater service where we already provide water, allows us to bring economies of scale in a way that benefits everyone. For instance, we can use the same trucks, same equipment and same administrative support that we use on the water side—different pipes of course—and really enhance value for the customers we serve.

"...when you combine an industry-leading EPS growth target of 7% to 10% and a dividend yield of about 2%, you are looking at the potential for low double-digit total shareholder return."

AA: ***What are the key takeaways you'd like investors to have about American Water?***

LS: We are committed to delivering 7% to 10% EPS growth from 2016 to 2020, anchored on 2014 earnings. This growth is driven primarily by regulated investments and acquisitions of over $6.4 billion over the next five years.

Our market-based businesses also provide growth opportunities in water and related services that expand on our core competencies.

We are committed to environmental stewardship and have an in-house innovation and development team that has examined over 600 technologies.

To summarize, when you combine an industry-leading EPS growth target of 7% to 10% and a dividend yield of about 2%, you are looking at the potential for low double-digit total shareholder return. Put that alongside our beta of 0.6 and we think we have the components of a solid investment.

AA: ***Thank you, Linda.***

Analyst Commentary

"Still best in class...We continue to see AWK as the best way to play the water industry, given its above average earnings and dividend growth coupled with earnings visibility and a top management team. AWK manages each regulatory jurisdiction locally, while keeping the customer at the center of everything they do. This strategy has provided above average regulatory outcomes for the company compared to industry averages."

—Daniel Ford, Barclays
May 5, 2016

"American Water is a defensive stalwart, yet it continues to benefit from secular legislative changes driving growth...AWK continues to be one of our top picks with limited EPS volatility, a low correlation with the S&P 500, a long growth runway and a high EPS and dividend growth rate for a utility."

—Brian Chin, Bank of America Merrill Lynch
May 5, 2016

"We regard AWK as a high-quality conservative utility with unique growth opportunities owing to its size, scale, and a diverse geographic footprint."

—Tim Winter, Gabelli & Co
May 6, 2016

"We remain attracted to AWK's proven ability to deliver consistent, above-average growth driven primarily by rate recognition of infrastructure investments, expense controls, and regulated M&A."

—Neil Kalton, Wells Fargo
May 5, 2016

DISCLOSURE

Investors and others should note that American Water Works posts important financial information using the investor relations section of the American Water Works website, http://www.amwater.com/, and Securities and Exchange Commission filings.

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ABOUT ADVISOR ACCESS

Advisor-Access LLC was designed to bring compelling investment ideas to investors in the form of in-depth interviews with company management and the latest fact sheets and corporate presentations, in a concise format: the critical pieces of information an investor needs to make an informed investment decision.