

Today's featured company is:**Smart Water; Smart Money**

For more than a century, **Aqua America** (NYSE: WTR) has delivered quality water service to communities throughout the United States, with the mission of “protecting and providing Earth’s most essential resource.” Now the second largest water utility in the nation, the company serves three million people in eight states, and is committed to providing excellent customer care, bringing value to shareholders year over year, and upgrading and consolidating water and wastewater infrastructure throughout America.

- Operates and maintains 20 water treatment plants, 3,000 wells, and nearly 1,500 public water systems
- Operates and maintains more than 12,000 miles of water and sewer mains
- Has delivered 72 consecutive years of shareholder dividends
- Has posted a shareholder return of more than 35 percent since 2015
- Has made more than 300 acquisitions since 1995

[Click here to view the Aqua America Fact Sheet.](#)

[Click here to view the Aqua America Investor Presentation.](#)

Advisor Access spoke to President and Chief Executive Officer **Christopher Franklin** about Aqua America and the water industry.

Advisor Access: *Can you give us a brief overview of Aqua America and the fragmented nature of the water industry in the U.S.?*

Chris Franklin: Aqua America is one of the largest publicly traded water utilities in the country, serving approximately three million people in eight states. During our company’s 130-year history, we have been guided by our mission to protect and provide the Earth’s most essential resource in the communities we serve.

The vast majority of the nation’s population receives water and wastewater services from municipally owned entities. In the U.S., 85 percent of the water market and 97 percent of the wastewater market are municipally controlled, with over 50,000 water and 16,000 wastewater systems. At Aqua, we see this as an opportunity within our strategic outlook to consolidate these systems, bringing greater efficiencies and enhanced service.

AA: *You recently announced a major investment in infrastructure upgrades. Can you address why infrastructure is a challenge, and how Aqua America intends to approach that challenge?*



CF: Major investment is needed in the water utility space. The U.S. Environmental Protection Agency expects the need to spend \$384.2 billion on water infrastructure, and \$292.2 billion on wastewater infrastructure, over the next twenty years.

We at Aqua believe we can be an important part of the solution to the nation's infrastructure challenges, both from financial and expertise standpoints. We have plans to invest more than \$1.2 billion in infrastructure improvements through 2019. We have seen evidence of failing and crumbling infrastructure throughout the country, and have witnessed the effect it has on our local communities. Consistent and ongoing upgrades and replacements of water and wastewater lines are imperative to ensure high quality service for our customers, and for citizens across the U.S. The opportunity to deploy capital allows us to contribute to the solution of the infrastructure problem while growing our rate base and improving shareholder value. Our expertise in water and wastewater presents mutually beneficial opportunities for Aqua America and local communities.

AA: What other challenges or goals are being targeted by Aqua America?

CF: We are targeting 1.5-2 percent customer growth for 2017, and currently have five deals representing nearly 10,000 customers and more than \$100 million purchase price pending. Additionally, we are evaluating approximately 70 additional new opportunities within our targeted size range of 2,500 to 25,000 customers.

Acquiring new systems comes with different complexities, so our challenge is to continually identify and evaluate options, and work within the regulatory environment to expand and increase our company's value. We believe Aqua can play an important part in the rehabilitation of U.S. water infrastructure, recently given a D grade by the American Society of Civil Engineers.

AA: Utility investors tend to focus on dividends. Can you describe Aqua America's dividend philosophy, and what investors should look for in the future?

"The board recently approved a 7 percent increase to the quarterly dividend, the twenty-seventh dividend increase in twenty-six years."

CF: Almost 50 percent of our company is owned by retail investors, which is unique for a company of our size. Investors can look for a continued emphasis on returning value to the shareholders via our dividends. The board recently approved a 7 percent increase to the quarterly dividend, the twenty-seventh dividend increase in twenty-six years. Our record of paying a dividend for 72 consecutive years shows Aqua's commitment to returning value to the shareholders. Since July 1, 2015, when I became CEO, our total shareholder return is over 35 percent.

AA: You have what you call an "aggressive growth-through-acquisition strategy." Would you describe what that means?

CF: Aqua's strategy has long been to acquire water and wastewater systems to help solve the national infrastructure problem and to grow our customer base. Several of the states where we provide service recently adopted "fair market value" legislation. These new laws allow municipalities to sell their systems for prices that reflect current market value. As a result, we've seen a significant increase in interest in privatization of municipal water and wastewater systems.

Municipalities often don't have the capital to continually update their infrastructures, like Aqua and some other regulated utilities do. We see this as a mutually beneficial arrangement, where we bring our professional expertise to the community while the municipality sells its system for funds it can redirect to other important local priorities.

Aqua is constantly looking to deploy capital into useful projects through targeted research and disciplined business development efforts. As noted above, hundreds of billions of dollars are needed to upgrade the nation's water infrastructure. Our acquisition plans include the consolidation of the fragmented U.S. water market, and our acquisition strategy focuses on our core capabilities of capital deployment, regulatory expertise, and operational excellence. Simply put, we have access to capital to invest in infrastructure, credibility in the regulatory environments where we operate, and we can utilize our operational knowledge to increase the efficiencies of our operations. Our management team has many years of experience in successfully applying this model to grow Aqua's business.

AA: What key takeaways would you like investors to know about Aqua America?

CF: Aqua America provides the necessary services of water delivery and wastewater management. Our experienced management team is committed to following a proven growth strategy. We believe there are plentiful opportunities to grow our business. We are the second largest water utility in America, serving 1 percent of the water and 0.1 percent of the wastewater markets in the U.S.

The marketplace appears ready for consolidation with fair market value legislation, making it more likely municipalities will explore privatization. Even small increases in Aqua's market share of the U.S. industry can represent tremendous upside with regard to growth for our company.

Finally, as employees of Aqua, we and our friends and families live in the areas we serve, so we are dedicated to providing excellent service to our customers, and to protecting and providing Earth's most essential resource.

AA: Thank you, Chris.

Chris Franklin is chief executive officer of Aqua America. A twenty-plus-year veteran of Aqua, Franklin has served as president and chief operating officer, regulated operations, and regional president of the company's southern and Midwestern operations, as well as in public affairs and customer operations. Since joining Aqua in 1992 as director, corporate and public affairs, Franklin has headed several successful projects, including advocacy for the passage of legislation designed to provide customers of state-regulated water and wastewater utilities with improved water quality and better water and wastewater systems while allowing a fair and reasonable return for shareholders. Franklin also attained national media coverage for Aqua, changed the name and rebranded the company and its subsidiaries, and expanded investor relations outreach to increase analyst coverage. Before joining Aqua, Franklin worked at PECO Energy Company (Exelon) as regional, civic and economic development officer. Franklin earned his B.S. from West Chester University and his M.B.A. from Villanova University. Franklin is vice president of the National Association of Water Companies' board of directors, and also served on the board of directors of ITC Inc. (NYSE: ITC) until it was recently sold to Fortis (NYSE: FTS).

Analyst Commentary

"We remain impressed with Aqua America's recent performance. The narrowed focus, centered on regulated operations and building rate base through investments and acquisitions should continue to expand the company's market capitalization for the benefit of shareholders . . . We see plenty of upside in WTR shares, especially in the coming quarters as the company begins to enter the rate case 'window' in Pennsylvania, its largest state."

— Michael Gaugler, Janney Montgomery Scott
August 3, 2017

"Aqua America is a bellwether name in the attractive water utility space, which boasts a compelling reward/risk outlook in an environment where valuations for many water industrials are becoming stretched . . . Aqua offers a unique combination of defense and offense, and the stock's discount valuation further improves the risk-adjusted total return outlook. We rate shares of WTR Outperform."

— Ryan M. Connors, Boenning & Scattergood
August 3, 2017

"Aqua America (WTR) reported its Q2 2017 results with 2% growth in regulated revenues due to an increase in rates, surcharges, consumption and customer growth . . . Our target price implies c18.7% upside. We maintain our Buy rating as we believe the combination of regulated investment and earnings growth is attractive."

— Verity Mitchell, HBSC Global Research
August 8, 2017

Disclosure

Investors and others should note that Aqua America, Inc. posts important financial information using the investor relations section of the Aqua America, Inc. website, www.aquaamerica.com/, and Securities and Exchange Commission filings.

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