

## Aqua America, Inc. (WTR)

Rate Recovery and Expense Control Fuel Strong 2Q10 EPS; Maintain Rating

Price: (8/4/10)	19.71	Rating:	Outperform	FY Dec	2009A	2010E	2011E
52WK H-L:	20 - 15			Q1	0.14A	0.16A	
Market Cap (mil):	2,700.27	Suitability:	Lower Risk	Q2	0.19A	0.22A	
Shares Out (mil):	137.0			Q3	0.25A	0.29E	
Float (mil):	135.7			Q4	0.20A	0.24E	
Avg. Daily Vol (mil):	0.90			<b>Total</b>	<b>0.77A</b>	<b>0.90E</b>	<b>1.00E</b>
		Price Target:	22	Previous			
Dividend	0.58			FY P/E	25.6	21.9	19.7
Yield (%)	2.94						

Please refer to Appendix - Important Disclosures and Analyst Certification.

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### Action

**Strong 2Q10 EPS as revenue growth outpaces expense increases; maintain Outperform rating.** 2Q10 EPS beat expectations, as rate relief and surcharge mechanisms boost revenue 6.6% YOY, while O&M contained to +1.1%. In the future, we expect more consistent net income growth (8-10%) with strategic acquisitions potentially providing upside. Improved earned returns with rate relief, accelerating investment opportunities and constructive regulatory practices combined are expected to drive double-digit EPS growth fueling attractive total returns.

### Summary

- **2Q10 results.** WTR reported 2Q10 EPS of \$0.22 versus \$0.19 in 2Q09 and our estimate of \$0.20. Consensus 2Q10 EPS was \$0.21.
  - Upside to our EPS estimate driven by continued focus on cost control. Revenue increased 6.6% YOY, while total operating expenses and O&M increased 3.6% and 1.1%, respectively.
- **Pending rate relief requests.** WTR has received \$43.7 million in rate relief YTD including case settlements in PA and NJ and completion in NY and NC. \$13.7 million of rate cases still pending before four state regulatory bodies.
  - An additional \$28.5 million in rate requests expected to be filed in 2H10, effective in 2011 and 2012.
- **Acquisitions continue to supplement organic growth.** WTR continues to be active on the acquisition front, having made 12 acquisitions thus far in 2010, including four in 2Q10. Management expects to complete 20-30 acquisitions in 2010 (vs. 18 completed in 2009), which will supplement slowed organic growth.
- **Continued investment opportunities.** WTR invested \$74 million in 2Q10 (\$141 million in 1H10) with plans to invest \$300 million in 2010 and \$1.5 billion over the next five years.
- **Baird estimates.** We are maintaining our 2010, 2011, and 2012 estimates at \$0.90, \$1.00, and \$1.05, respectively. We maintain our \$22 price target and Outperform rating. We expect solid stock price support as WTR returns to its historical performance levels, net income growth (8-10% annually) and financial and operation performance consistency.

## Details

WTR reported 2Q10 EPS of \$0.22 versus \$0.19 in 2Q09 and our 2Q10 estimate of \$0.20. The consensus 2Q10 estimate was \$0.21.

**Figure 1: 2Q10 Results Variance**

Aqua America (WTR - NYSE) Quarterly Results Variance								
	Quarterly Results			Baird	Variance	Percent of Revenue		
	2Q10	2Q09	% Chg			2Q10	2Q09	Baird
<b>Revenue</b>	\$178	\$167	6.6%	\$178	0.0%			
Operating Expenses	112	108	3.6%	115	(2.2%)	63.0%	64.8%	64.4%
<b>Operating Income</b>	66	59	12.3%	63	4.1%	37.0%	35.2%	35.6%
Pretax Income	49	43	15.1%	45	9.3%	27.5%	25.5%	25.2%
Taxes	19	17		18		10.8%	10.1%	9.8%
<b>Net Income</b>	\$30	\$26	15.5%	\$27	8.9%	16.7%	15.5%	15.4%
<b>EPS</b>	<b>\$0.22</b>	<b>\$0.19</b>	<b>15.4%</b>	<b>\$0.20</b>	<b>8.4%</b>			
Diluted Shares	137	137		136				

2Q10 nonrecurring and other items of note: None

2Q09 nonrecurring and other items of note: None

Source: Company reports; RW Baird estimates

## Outlook

With solid to strong EPS performance YTD, we believe WTR remains on track to return to its historic growth rate of 7-10% or better reflecting improved earned ROEs, accelerating infrastructure investment, effective cost control efforts and acquisitions.

Management expects net income to grow 8-10% in 2H10 with normalized weather and organic customer growth (+1-2%), rate case completions, and increased effective rates in Pennsylvania and New Jersey. WTR increased its dividend rate 7% which is expected to keep the company's dividend payout ratio 60-70%.

Capital expenditures are still expected to grow to over \$300 million in 2010 (~2.5x depreciation levels), which should further support EPS growth. Over 90% of this capital will be invested in system upgrades (main, pipes, hydrants, etc.), which provide direct value to customers; <10% will be invested in mandatory environmental upgrades. Most of WTR's Midwest and Mid Atlantic states (except New Jersey) employ some type of infrastructure surcharge mechanism, which allows WTR to earn a return on its infrastructure investments in between rate cases.

Longer term, we expect a continuation of WTR's constructive regulatory environments to allow for solid 7-10% annual EPS growth reflecting substantial investment opportunities to strengthen its water delivery systems. More widespread acceptance of DSIC-like mechanisms should elicit increased investment, given decreased regulatory lag. Acquisitions of water and wastewater systems, that typically have substantial capital investment needs to improve water quality and strengthen the water delivery system, should continue to provide additional upside.

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## Results

Revenue increased by 6.6% YOY driven by steady rate relief and supplemental DSIC mechanism earnings, as well as increased customer consumption (2.2%) reflecting more normal weather in June as compared to a wet 2Q09. Increased revenue from rate cases contributed 3.4% (1.5% surcharges, 1.9% regular rates) to YOY revenue increases. The remaining 1% of revenue increases was attributable to acquisition activity/customer growth, which is showing signs of improvement YOY.

Although revenue increased 6.6%, O&M expense rose only about 1.1% as a result of continued efforts by management to control costs. WTR was able to achieve its previously stated goal of improving the O&M/revenue ratio, which improved to 39.5% from 40.7% YOY. O&M management is an important part of WTR's strategy, however, management stated that 1% O&M growth is not sustainable and expects the year-end O&M efficiency ratio to be within 10 bps of 39%.

WTR invested \$141 million in infrastructure improvements YTD, and is on track to achieve its capex target of \$300 million in 2010. Capex is primarily targeted to improve outdated infrastructure and upgrade service reliability.

Overall operating expenses increased 3.6% YOY with O&M expenses up 1.1% YOY, driven by increased property and other taxes (+9%) and increased depreciation expense (+7%). Net interest expense increased \$1.7 million (+10%) YOY to \$18.45 million, reflecting higher debt balances. Management expects interest expense to increase 10-15% through 2011, then dip back into single digits in 2012.

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## Rate Cases

WTR has received \$43.7 million YTD in annualized revenue increases (effective about evenly in 2H10 and 1H11) in Pennsylvania, New Jersey, New York, North Carolina, Missouri, Ohio, Indiana, Maine, and Virginia. WTR settled cases in with both PA and NJ in 2Q10. The Pennsylvania settlement was resolved sooner than expected. WTR filed for increased rates in 11/2009, and assuming the standard 11 month rate case cycle, the company expected a case conclusion in 10/2010. Therefore, the 6/15/10 effective date permitted certain rate case concessions given the rapid conclusion and implementation. WTR received \$23.6 million in rate increases (excluding the DSIC surcharge) and an ROE in the range of 10.5-11%. All capital and pension requests were allowed, which should increase 2H10 O&M, as PA pension expenses were back end loaded to insure rate recovery. The New Jersey settlement increased rates by \$4 million, including a 10.3% ROE (the highest ever received in the state).

\$13.7 million of rate cases remain outstanding before four regulatory bodies (Illinois, Indiana, Ohio, and Florida). Final decisions are anticipated by YE 2010, effective in 2011. An additional \$28.5 million in rate requests is expected to be filed later in 2010 (effective in 2011-2012), 75% - normal litigated rate cases and; 25% - surcharge mechanisms. Larger rate cases are expected to be filed in Florida, Texas (2 regions), and a consolidated filing in North Carolina. In addition to other small rate cases in Indiana and Maine, WTR will file its \$7 million PA DSIC filing in 4Q10. These remaining cases are expected to be spread out throughout 2H10. Rate relief is primarily sought to recover infrastructure investments and increased expenses.

In 2009, PA increased its DSIC from 5% to 7.5% of revenue, which should continue to decrease regulatory lag for water-pipe replacement projects. The acceptance of DSIC-like mechanisms in other operating states would likely spur increased pipe investment and capital expenditures. WTR continues to work with the other New Jersey investor-owned utilities to increase knowledge and potentially implementation of a DSIC-like mechanism.

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## Acquisitions

WTR continues to be active on the acquisition front, having made 12 acquisitions thus far in 2010, including four in 2Q10. WTR has acquired both water and wastewater systems in NJ, IL, TX, PA, and VA. Management expects to complete 20-30 acquisitions in 2010 (vs. 18 completed in 2009), demonstrating the company's continued commitment and success in revenue growth by acquisition, usually focusing on tuck-in acquisitions. These tuck-ins can provide a steady source of customer growth and are manageable in customer size (~1,000 customers) and location (typically in proximity to an existing WTR system).

WTR is hoping to return to its historical customer growth level (+3-4%) over the next few years, as both organic and acquisition growth opportunities return. For 2010, management is projecting an improving customer growth rate of +1-2%. Organic growth opportunities are slowly returning to the market, as new home construction seems to be returning to WTR's geographic areas, though management stated that recent results may be skewed due to the expiration of the first-time home buyer tax credit.

Management stated that the acquisition market is continuing to improve from the depressed levels seen over the past few years, and WTR remains an active and able purchaser in these deals. Though activity level has increased, management is not satisfied with the current acquisition completion rate. Historically, WTR completed 25-30 acquisitions annually and is hoping to return to a more normalized acquisition run rate in 2010. With continued economic weakness at the municipality level and the further deterioration of water infrastructure systems, more acquisition opportunities may develop in the next few years. Aqua's financial and industry position, longstanding history, and wide geographic presence (13 states), makes it a natural party in these acquisitions.

On 5/6/10, Aqua Texas acquired the assets of Canyon Springs Water Company, which currently serves approximately 1,200 people in Comal County, Texas for \$650,000. The community is composed of three subdivisions, the build-out of which is expected to double the current occupancy.

On 4/27/10, Aqua Virginia completed the purchase of the water system assets of the Skyline Water Company and the Rebel Water Works, which together serve 1,400 people in an area in Culpepper, Orange, and Fauquier counties. Aqua already operates nine water systems in the area.

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## Investment Thesis

We rate Aqua America Outperform with a 12-month price target of \$22. Our price target is 21x our 2012 EPS estimate, we believe in line with its peers when fully valued due to its relative earnings consistency, longer-term growth opportunities and wider potential shareholder base reflecting its relative size and liquidity.

Key investment considerations include the following:

- **Strong leadership team.** We believe Aqua has a strong leadership team that has demonstrated a keen focus on developing strong regulatory relationships and engineering innovative solutions to improve water system quality while providing investors with appropriate recovery. We believe management has executed regulatory and investment plans that provide stable and consistent value creation for investors.
- **Attractive total return potential.** We expect 4-6% long-term annual EPS growth with a 60-70% dividend payout ratio, providing a current dividend yield of 3.4% to add up to attractive total returns. Upside exists if WTR is able to accelerate its acquisition program of water and wastewater systems.
- **Constructive regulatory mechanisms.** The majority of WTR's regulatory operations are located in states that maintain enhanced regulatory recovery mechanisms that enable stable earned returns, including infrastructure investment riders, statewide rates and incentive mechanisms for acquisitions of troubled water systems. We believe such mechanisms provide a constructive regulatory environment in which to make capital investments, enabling improved and more consistent earned returns, which should lead to a premium peer valuation.
- **Acquisition growth.** Aqua has successfully acquired hundreds of water and wastewater systems in the past decade to supplement its internal growth. Acquisitions also provide significant follow-on investment opportunities as WTR improves the quality of an acquired water system. We believe such acquisitions are a key value driver for the company and the stock, as it continues to be a key player in consolidating some of the 53,000 water systems outstanding in the U.S. and rehabilitating those systems to improve water quality and drive investment growth.
- **Investment shifting to pipe replacement.** Following significant investment into water treatment systems to meet advancements in water quality standards, Aqua's investment mix is shifting toward pipe replacement. While substantial capital investments will still be required to fund pipe replacement, the level of rate base growth could decline versus historical levels.
- **Water utility valuation.** We expect solid earned ROEs, 4-6% longer-term EPS growth potential and constructive regulatory investment recovery mechanisms should support a 20-22x forward P/E. The valuation is a premium to its regulated electric and gas utility peers reflecting significant industry consolidation and rate base growth opportunities with lowered regulatory risk, and generally more constructive regulatory mechanisms that enable earnings consistency.

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## Risks & Caveats

Our suitability rating on Aqua America is Lower Risk. Key risks include, but are not limited to, the following:

- **Regulation.** Regulated operations are subject to local, state and federal regulations. Changes in the regulatory environment can affect WTR's near-term and long-term performance.
- **Weather.** WTR's businesses are sensitive to fluctuations in the weather. Particularly wet or dry weather can impact near-term financial results.
- **Acquisition risk.** WTR may have the opportunity to purchase assets or companies in

the near future. Acquisitions carry risks related to personnel, expected-versus-actual growth and a myriad of unforeseen hurdles, all of which can negatively affect earnings.

- **Product quality.** Unique among its sister regulated utility sectors, water utilities provide a product that is ingested. Despite robust mandated service quality standards that lower risk, a quality failure could materially impact the earnings and stock of WTR.
- **Dividend legislation.** Congress has extended tax legislation that reduced the tax rate on dividends received. However, the extensions only last through 2009 and there can be no assurance that further extensions of the tax relief will occur or that a future Congress would not repeal the current legislation, which could have an adverse impact on the after-tax value of dividends and the stock.

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## Company Description

Aqua America is a holding company for numerous regulated water and wastewater utilities operating in the eastern half of the U.S. that serve over 2.8 million people. It is the second-largest investor-owned water utility in the U.S. Known as Philadelphia Suburban Corporation until 2004, Aqua America is headquartered in the Philadelphia suburbs where its corporate roots date back to 1886 for providing water and/or wastewater service.

**Aqua America**  
WTR - NYSE

Date Printed: 8/4/2010

Recent Price: \$19.87

\$mil	Revenue			Operating Expenses			Operating Income			Other Income		Net Int. Exp.		Pretax Income			Tax Rate	Net Income			TTM ROE	Diluted EPS		Div.	Diluted Shares
	\$	Chg.	Int.	\$	%	Chg.	\$	%	Chg.	\$	Chg.	\$	Chg.	\$	%	Chg.		\$	%	Chg.		\$	% Chg.		
2003	367.2	14.0%		213.7	58.2%	17.7%	153.6	41.8%	9.3%	7.82	-14.5%	44.66	10.6%	116.7	31.8%	6.8%	39.3%	70.8	19.3%	5.4%	12.3%	0.59	2.2%	0.34	119.0
2004	442.0	20.4%	5.4%	267.1	60.4%	25.0%	174.9	39.6%	13.9%	5.92	-24.3%	48.68	9.0%	132.1	29.9%	13.2%	39.4%	80.0	18.1%	13.0%	11.4%	0.64	7.0%	0.37	125.7
2005	496.8	12.4%	9.5%	300.3	60.4%	12.4%	196.5	39.6%	12.4%	3.62	-38.8%	52.06	6.9%	148.1	29.8%	12.1%	38.4%	91.2	18.3%	13.9%	11.7%	0.71	10.9%	0.40	129.2
Q1	117.9	3.5%	2.0%	77.3	65.6%	8.6%	40.6	34.4%	-5.0%	1.19	40.2%	14.17	10.8%	27.6	23.4%	-10.3%	40.1%	16.6	14.0%	-12.2%	11.3%	0.13	-13.6%	0.11	130.9
Q2	131.7	7.0%	6.1%	81.7	62.0%	9.6%	50.1	38.0%	3.1%	1.76	142.5%	14.74	17.6%	37.1	28.2%	0.9%	39.7%	22.4	17.0%	0.8%	11.0%	0.17	-0.4%	0.11	131.0
Q3	147.0	7.4%	5.8%	87.4	59.5%	12.5%	59.5	40.5%	0.7%	0.79	55.7%	14.75	11.1%	45.6	31.0%	-1.6%	40.0%	27.3	18.6%	-2.1%	10.6%	0.21	-3.9%	0.12	132.7
Q4	136.8	11.3%	8.5%	81.5	59.6%	6.1%	55.3	40.4%	20.1%	1.40	-9.4%	14.76	9.8%	41.9	30.7%	22.8%	38.7%	25.7	18.8%	16.1%	10.6%	0.19	13.0%	0.12	133.4
2006	533.5	7.4%	6.4%	327.9	61.5%	9.2%	205.5	38.5%	4.6%	5.14	41.7%	58.43	12.2%	152.3	28.5%	2.8%	39.6%	92.0	17.2%	0.9%	10.6%	0.70	-1.0%	0.44	131.8
Q1	137.3	16.4%	10.5%	93.6	68.1%	21.0%	43.7	31.9%	7.7%	0.79	-33.3%	16.55	16.8%	28.0	20.4%	1.3%	39.8%	16.9	12.3%	1.8%	10.4%	0.13	0.0%	0.12	133.2
Q2	150.6	14.3%	7.9%	95.9	63.6%	17.4%	54.8	36.4%	9.3%	1.06	-39.6%	16.44	11.5%	39.4	26.2%	6.2%	39.8%	23.7	15.8%	6.0%	10.3%	0.18	4.0%	0.12	133.5
Q3	165.5	12.6%	5.4%	100.1	60.5%	14.5%	65.3	39.5%	9.8%	0.92	15.2%	17.10	15.9%	49.2	29.7%	7.9%	40.0%	29.5	17.8%	8.0%	10.3%	0.22	7.1%	0.13	133.8
Q4	149.1	8.9%	7.1%	96.9	65.0%	18.9%	52.2	35.0%	-5.7%	3.68	162.9%	16.83	14.0%	39.0	26.2%	-7.0%	36.1%	24.9	16.7%	-3.2%	10.0%	0.19	-3.6%	0.13	134.0
2007	602.5	12.9%	7.6%	386.5	64.1%	17.9%	216.0	35.9%	5.1%	6.45	25.6%	66.92	14.5%	155.5	25.8%	2.2%	38.9%	95.0	15.8%	3.3%	10.0%	0.71	1.9%	0.48	133.6
Q1	139.3	1.4%	1.0%	99.1	71.1%	5.9%	40.2	28.9%	-8.1%	0.96	21.0%	17.13	3.5%	24.0	17.3%	-14.1%	40.4%	14.3	10.3%	-15.0%	9.6%	0.11	-15.5%	0.13	134.0
Q2	150.8	0.1%	-0.1%	97.6	64.8%	1.8%	53.1	35.2%	-3.0%	1.65	55.8%	17.06	3.8%	37.7	25.0%	-4.2%	40.2%	22.6	15.0%	-5.0%	9.3%	0.17	-5.3%	0.13	134.1
Q3	177.1	7.0%	4.5%	102.5	57.9%	2.4%	74.6	42.1%	14.1%	1.51	64.8%	17.01	-0.5%	59.1	33.4%	20.2%	40.1%	35.4	20.0%	19.9%	9.8%	0.26	18.6%	0.13	135.3
Q4	159.8	7.2%	0.0%	102.0	63.8%	5.2%	57.9	36.2%	11.0%	1.16	-68.6%	17.37	3.2%	41.7	26.1%	6.8%	38.4%	25.7	16.1%	3.0%	9.7%	0.19	1.8%	0.14	135.6
2008	627.0	4.1%	3.1%	401.2	64.0%	3.8%	225.8	36.0%	4.5%	5.27	-18.2%	68.57	2.5%	162.5	25.9%	4.5%	39.7%	97.9	15.6%	3.1%	9.6%	0.73	2.2%	0.51	134.7
Q1	154.5	10.9%	10.0%	107.7	69.7%	8.7%	46.8	30.3%	16.3%	0.76	-20.7%	16.63	-2.9%	30.9	20.0%	28.5%	40.5%	18.4	11.9%	28.3%	9.9%	0.14	26.5%	0.14	135.9
Q2	167.3	11.0%	9.2%	108.5	64.8%	11.1%	58.9	35.2%	10.8%	0.65	-60.8%	16.81	-1.5%	42.7	25.5%	13.2%	39.5%	25.9	15.5%	14.6%	10.0%	0.19	12.2%	0.14	136.9
Q3	180.8	2.1%	-0.1%	109.4	60.5%	6.7%	71.5	39.5%	-4.2%	0.91	-39.7%	17.26	1.4%	55.1	30.5%	-6.7%	39.3%	33.5	18.5%	-5.4%	9.8%	0.25	-6.1%	0.14	136.3
Q4	167.9	5.0%	7.1%	107.5	64.0%	5.5%	60.4	36.0%	4.3%	1.03	-11.1%	17.91	3.2%	43.5	25.9%	4.4%	38.7%	26.7	15.9%	3.9%	9.7%	0.20	3.2%	0.15	136.5
2009	670.5	6.9%	6.2%	433.1	64.6%	8.0%	237.5	35.4%	5.2%	3.34	-36.6%	68.61	0.1%	172.2	25.7%	6.0%	39.4%	104.4	15.6%	6.6%	9.6%	0.77	5.5%	0.55	136.1
Q1	160.5	3.9%	3.5%	109.8	68.4%	2.0%	50.7	31.6%	8.4%	3.47	357.8%	18.43	10.8%	35.7	22.3%	15.6%	39.8%	21.5	13.4%	17.1%	9.9%	0.16	16.3%	0.15	136.8
Q2	178.4	6.6%	5.1%	112.4	63.0%	3.6%	66.1	37.0%	12.3%	1.57	142.4%	18.50	10.1%	49.1	27.5%	15.1%	39.2%	29.9	16.7%	15.5%	10.1%	0.22	15.4%	0.15	137.0
Q3E	199.5	10.3%	8.8%	115.9	58.1%	6.0%	83.5	41.9%	16.9%	0.96	5.4%	19.67	14.0%	64.8	32.5%	17.6%	39.0%	39.5	19.8%	18.1%	10.5%	0.29	17.0%	0.15	137.6
Q4E	186.8	11.2%	9.7%	115.5	61.8%	7.4%	71.3	38.2%	18.1%	0.00	-99.9%	18.61	3.9%	52.7	28.2%	21.1%	38.2%	32.5	17.4%	22.0%	10.9%	0.24	20.8%	0.16	137.9
2010E	725.2	8.1%	6.9%	453.6	62.6%	4.7%	271.6	37.4%	14.4%	6.00	79.5%	75.22	9.6%	202.4	27.9%	17.5%	39.0%	123.4	17.0%	18.3%	10.9%	0.90	17.5%	0.59	137.1
2011E	783.2	8.0%	5.8%	483.3	61.7%	6.6%	299.8	38.3%	10.4%	6.30	5.0%	80.14	6.5%	226.0	28.9%	11.7%	39.0%	137.9	17.6%	11.7%	11.5%	1.00	11.1%	0.63	137.8
2012E	838.0	7.0%	4.8%	514.1	61.3%	6.4%	323.9	38.7%	8.0%	6.49	3.0%	89.58	11.8%	240.8	28.7%	6.6%	39.0%	146.9	17.5%	6.6%	11.4%	1.05	5.4%	0.67	139.4

Please refer to "Appendix - Important Disclosures" and Analyst Certification.

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Fiscal Year: DEC

(in millions)

## Aqua America WTR - NYSE

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Balance Sheet	2005	2006	2007	2008	2009	1Q10	Cash Flow Statement	2005	2006	2007	2008	2009	2010E	2011E	
<b>ASSETS</b>							<b>Net Income</b>	91.2	92.0	95.0	97.9	104.4	123.4	137.9	
Cash & Equivalents	11.9	44.0	14.5	14.9	21.9	(10.8)	Depreciation & Amort	65.5	75.0	88.0	94.3	114.9	119.0	128.1	
Receivables	62.7	72.1	82.9	84.5	78.7	83.8	Net changes in (CA) & CL	20.5	(14.4)	(14.6)	(9.7)	(8.5)	(6.7)	(7.1)	
Inventory	7.8	8.4	8.8	9.8	9.5	10.1	Deferred taxes/Non-Cash	22.5	18.1	25.8	39.0	47.8	(8.6)	(8.8)	
Other	7.6	10.2	9.2	11.8	11.4	12.0	<b>Cash Flow from Operations</b>	199.7	170.7	194.2	221.5	258.6	227.1	250.1	
<b>Total Current</b>	90.0	134.7	115.5	121.0	121.6	95.1	Dividend Payments	(51.1)	(58.0)	(63.8)	(68.5)	(74.7)	(80.5)	(86.5)	
Fixed Assets	2,280.0	2,506.0	2,792.8	2,997.4	3,227.3	3,296.5	Net Capital Expenditures	(237.5)	(271.7)	(238.1)	(267.4)	(283.6)	(280.0)	(290.0)	
Goodwill & Intangible Asset	20.2	22.6	36.6	41.0	43.1	43.1	<b>Free Cash Flow</b>	(\$88.9)	(\$159.0)	(\$107.7)	(\$114.4)	(\$99.7)	(\$133.4)	(\$126.4)	
Other Assets	236.6	214.6	282.0	325.6	370.6	368.7	Operating Cash Flow Per Share	1.55	1.30	1.45	1.64	1.90	1.66	1.81	
<b>Total Assets</b>	2,626.7	2,877.9	3,226.9	3,485.0	3,762.6	3,803.4	Free Cash Flow Per Share	(0.69)	(1.21)	(0.81)	(0.85)	(0.73)	(0.97)	(0.92)	
<b>LIAB. &amp; EQUITY</b>							<b>Du Pont Formula</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010E</b>	<b>2011E</b>	
Current Debt	163.2	150.3	80.8	87.9	87.1	99.9	Net Margins (N/S)	18.3%	17.2%	15.8%	15.6%	15.6%	17.0%	17.6%	
Payables	55.5	49.4	45.8	50.0	57.9	35.8	Assets Turnover (S/A)	0.2	0.2	0.2	0.2	0.2	0.2	0.2	
Other	44.7	55.9	56.6	55.2	56.1	68.7	Leverage (A/E)	3.2	3.2	3.2	3.3	3.3	3.4	3.4	
<b>Total Current</b>	263.3	255.6	183.2	193.2	201.0	204.5	<b>Return on Equity</b>	11.7%	10.6%	10.0%	9.6%	9.6%	10.9%	11.5%	
L/T Debt & Lease	878.4	951.7	1,215.1	1,248.1	1,386.6	1,403.3	<b>Valuation Parameters</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010E</b>	<b>Recent</b>	
Deferred Taxes	250.3	273.2	307.7	355.2	408.6	411.4	Price (Common) - WTR	High	29.22	29.79	26.62	22.00	21.50	19.95	19.87
Other Liabilities	422.7	475.8	544.7	630.1	657.5	656.1	Low	17.49	20.13	18.86	12.20	16.12	17.07		
Preferred Stock	-	-	-	-	-	-	<b>Forward P/E Ratio</b>	High	37.0x	34.9x	32.2x	26.4x	25.0x	25.0x	
Common Equity	811.9	921.6	976.3	1,058.4	1,108.9	1,128.1	Low	23.8x	25.2x	22.8x	14.7x	17.1x	17.1x		
<b>Total Liab. &amp; Equity</b>	2,626.7	2,877.9	3,226.9	3,485.0	3,762.6	3,803.4	Close	33.8x	27.6x	25.4x	21.4x	18.9x	18.9x	21.4x	
<b>Ratio Analysis:</b>							<b>Book Value</b>	\$	6.30	\$6.96	\$7.28	\$7.78	\$8.14	\$8.49	\$8.97
Current Ratio	0.3	0.5	0.6	0.6	0.6	0.5	<b>Price/Book Ratio</b>	High	4.6x	4.3x	3.7x	2.8x	2.6x	2.3x	2.4x
Working Capital	(\$22)	(\$15)	(\$1)	\$1	(\$14)	\$1	Low	2.8x	2.9x	2.6x	1.6x	2.0x	2.0x	2.0x	
Working Cap/Assets	(0.8%)	(0.5%)	(0.0%)	0.0%	(0.4%)	0.0%	Close	4.3x	3.3x	2.9x	2.6x	2.5x	2.3x	2.3x	
Inventory Turns	NM	NM	NM	NM	NM	NM	<b>EBITDA</b>	\$260.9	\$281.6	\$305.6	\$319.9	\$343.8	\$386.6	\$424.3	
Total Debt/Capital	62%	59%	59%	58%	59%	59%	<b>Enterprise Value</b>	High	\$4,805	\$4,983	\$4,838	\$4,285	\$4,379	\$4,311	\$4,608
LT Debt/Equity	108%	103%	124%	118%	125%	124%	Low	3,290	3,711	3,801	2,964	3,646	3,916	4,184	
EBIT/Interest Expense	3.8x	3.6x	3.3x	3.4x	3.5x	3.5x	<b>EV / EBITDA</b>	High	18.4x	17.7x	15.8x	13.4x	12.7x	11.2x	10.9x
Total Debt/EBIT	5.2x	5.2x	5.8x	5.8x	6.1x	5.9x	Low	12.6x	13.2x	12.4x	9.3x	10.6x	10.1x	9.9x	
							Close	17.5x	14.4x	13.5x	12.8x	12.1x	10.9x	10.6x	

Please refer to "Appendix - Important Disclosures" and Analyst Certification.



## Appendix - Important Disclosures and Analyst Certification



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