

**COMPANY UPDATE**
**Key Metrics**

WTR - NYSE (as of 2/22/10)	\$17.30
Price Target	\$23.00
52-Week Range	\$20.37-\$15.39
Shares Outstanding (mm)	136.3
Market Cap. (\$mm)	\$2,357.5
3-Mo. Average Daily Volume	710,560
Institutional Ownership	47.5%
Debt/Total Capital (9/09)	54.0%
ROE (9/09)	9.7%
Book Value/Share (9/09)	\$7.91
Price/Book Value	2.2x
Dividend Yield	3.4%
LTM EBITDA Margin	52.2%

**EPS FY 12/31**

	2008A	Prior 2009E	Curr. 2009E	Prior 2010E	Curr. 2010E
1Q	\$0.11	--	\$0.14	--	--
2Q	\$0.17	--	\$0.19	--	--
3Q	\$0.26	--	\$0.25	--	--
4Q	\$0.19	\$0.24E	\$0.21E	--	--
Year	\$0.73	\$0.86E	\$0.79E	\$0.97E	\$0.97E
P/E	23.7x		21.9x		17.8x

**Revenue (\$mm)**

	2008A	Prior 2009E	Curr. 2009E	Prior 2010E	Curr. 2010E
1Q	\$139.3	--	\$154.5	--	--
2Q	\$150.8	--	\$167.3	--	--
3Q	\$177.1	--	\$180.8	--	--
4Q	\$159.8	\$179.2E	\$168.4E	--	--
Year	\$627.0	\$699.2E	\$671.1E	\$725.7E	\$725.7E

**Company Description:** Aqua America is a water and wastewater utility holding company with operating subsidiaries serving approximately three million people in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, New York, Indiana, Florida, Virginia, Maine, Missouri, South Carolina, and Georgia. The company's history spans over 100 years.

**Aqua America Inc.**

WTR -- NYSE -- Buy-2

**Q4 Earnings Preview**
**Investment Highlights**

- WTR reports Q4 EPS this Thursday with a conference call scheduled for 10:00 am ET. We forecast Q4'09 EPS of \$0.21, a penny above consensus. The company does not issue guidance. Given heavy precipitation in October, we do not anticipate results coming in ahead of our forecast.
- Our biggest question is what progress the company is making with the current acquisition landscape. We believe this will be the biggest driver of growth for the foreseeable future, and will be looking for any color on this front.
- We would be buyers ahead of Thursday's call, given our perception that acquisition activity will increase, margin improvement is likely, and anticipated rate cases could all drive the share price closer to historical multiples.
- We derive our \$23 target price by applying a multiple of 24x our FY'10 EPS estimate, which is at the low end of multiples at which the company typically trades.

**Note Important Disclosures on Pages 4 and 5.**  
**Note Analyst Certification on Page 4.**

**CONSIDERATIONS AND RISKS**

- Water companies are subject to seasonal fluctuations, drought, and heavy rainfall. Demand varies with rainfall and temperature changes, and infrastructure replacements could become burdensome.
- Compliance with an increasingly stringent EPA will likely become an even greater cost going forward. Each state regulatory body deals with cost recoveries somewhat differently, affecting the timing of revenues and costs. Rate increases are not retroactive.
- The company's growth strategy via acquisitions could potentially be dilutive or have other adverse effects on normal business operations.

*Additional information is available upon request.*

## Aqua America, Inc.

Income Statements (000's)	FY'06	FY'07	Q1'08	Q2'08	Q3'08	Q4'08	FY'08	Q1'09A	Q2'09A	Q3'09A	Q4'09E	FY'09E	FY'10E
Operating revenues	\$533,491	\$602,499	\$139,283	\$150,751	\$177,098	\$159,840	\$626,972	\$154,487	\$167,333	\$180,826	\$168,405	\$671,051	\$725,678
Costs and expenses:													
Operation and maintenance	219,560	253,092	64,304	65,146	66,743	65,929	262,122	66,989	68,549	68,488	67,362	271,388	283,547
Depreciation	70,895	83,178	21,481	20,619	22,809	23,876	88,785	26,387	24,972	25,436	25,500	102,295	104,000
Amortization	4,146	4,833	1,173	1,012	1,815	1,515	5,515	2,755	3,064	3,029	1,600	10,448	6,955
Taxes other than income taxes	33,343	45,380	12,109	10,845	11,157	10,638	44,749	11,590	11,884	12,418	11,788	47,680	47,712
Operating income	327,944	386,483	99,067	97,622	102,524	101,958	401,171	107,721	108,469	109,371	106,250	431,811	442,214
Other expense (income):													
Interest expense (net)	58,432	66,921	17,130	17,063	17,014	17,365	68,572	16,628	16,809	17,256	17,256	67,949	69,200
Allow. for funds used dur. const.	(3,941)	(2,953)	(956)	(1,100)	(976)	(642)	(3,674)	(625)	(568)	(747)	(1,000)	(2,940)	(3,600)
Gain on sale of water system													
Gain on sale of other assets	(1,194)	(3,494)		(553)	(532)	(514)	(1,599)	(133)	(80)	(162)	(100)	(475)	(1,200)
Income before income taxes	152,250	155,542	24,042	37,719	59,068	41,673	162,502	30,896	42,703	55,108	45,999	174,706	219,064
Provision for income taxes	60,246	60,528	9,721	15,167	23,688	16,008	64,584	12,525	16,850	21,638	17,709	68,722	86,679
Net income	92,004	95,014	14,321	22,552	35,380	25,665	97,918	18,371	25,853	33,470	28,289	105,983	132,385
Dividends on preferred stock													
Net income available to common stk.	\$92,004	\$95,014	\$14,321	\$22,552	\$35,380	\$25,665	\$97,918	\$18,371	\$25,853	\$33,470	\$28,289	\$105,983	\$132,385
Net income	92,004	95,014	14,321	22,552	35,380	25,665	97,918	18,371	25,853	33,470	28,289	105,983	132,385
Other comp. income (loss), net of tax:													
Unreal. hold. gain (loss) on certain inv.	194	1,121		189	4	2	195	37	232	(142)			
Minimum pension liability adjustment	3,082												
Unrealized gains on securities													
Reclass. adj. for gains reported		(1,315)			(209)		(209)		5				
Comprehensive income	\$95,280	\$94,820	\$14,321	\$22,741	\$35,175	\$25,667	\$97,904	\$18,408	\$26,090	\$33,328	\$28,289	\$105,983	\$132,385
EPS (FD)	\$0.70	\$0.71	\$0.11	\$0.17	\$0.26	\$0.19	0.73	\$0.14	\$0.19	\$0.25	\$0.21	\$0.79	\$0.97
Diluted average shares outstanding	131,774	133,602	133,970	134,060	135,279	135,586	134,705	135,876	135,939	136,260	136,460	134,615	136,994
Cash div. per share of com. stk.	\$0.444	\$0.480	\$0.125	\$0.125	\$0.125	\$0.135	\$0.510	\$0.135	\$0.135	\$0.135	\$0.145	\$0.550	\$0.587
<b>Rate of Change Analysis:</b>													
Revenues	7.4%	12.9%	1.4%	0.1%	7.0%	7.2%	4.1%	10.9%	11.0%	2.1%	5.4%	7.0%	8.1%
Operating income	4.6%	5.1%	-8.1%	-3.0%	14.1%	11.0%	4.5%	16.3%	10.8%	-4.2%	7.4%	6.0%	18.5%
EPS	-1.4%	1.4%	-15.4%	-5.6%	18.2%	0.0%	2.8%	27.3%	11.8%	-3.8%	9.1%	7.9%	22.7%
EBITDA	7.1%	8.4%	-3.4%	-2.2%	13.3%	11.2%	5.3%	20.7%	16.2%	0.7%	7.2%	10.0%	12.1%
<b>Margin Analysis:</b>													
O&M	41.2%	42.0%	46.2%	43.2%	37.7%	41.2%	41.8%	43.4%	41.0%	37.9%	40.0%	40.4%	39.1%
D&A	14.1%	14.6%	16.3%	14.3%	13.9%	15.9%	15.0%	18.9%	16.8%	15.7%	16.1%	16.8%	15.3%
Taxes other than inc. taxes	6.2%	7.5%	8.7%	7.2%	6.3%	6.7%	7.1%	7.5%	7.1%	6.9%	7.0%	7.1%	6.6%
Operating income	38.5%	35.9%	28.9%	35.2%	42.1%	36.2%	36.0%	30.3%	35.2%	39.5%	36.9%	35.7%	39.1%
Net income	17.9%	15.7%	10.3%	15.1%	19.9%	16.1%	15.6%	11.9%	15.6%	18.4%	16.8%	15.8%	18.2%
Tax rate	39.6%	38.9%	40.4%	40.2%	40.1%	38.4%	39.7%	40.5%	39.5%	39.3%	38.5%	39.3%	39.6%

Source: Company reports and Hilliard Lyons estimates

### **Analyst Certification**

I, James O. Lykins, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

### **Important Disclosures**

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

### **Investment Ratings**

**Buy** - We believe the stock has significant total return potential in the coming 12 months.

**Long-term Buy** - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues.

**Neutral** - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

**Underperform** - We believe the stock is vulnerable to a price decline in the next 12 months.

### **Suitability Ratings**

**1** - A large cap, core holding with a solid history

**2** - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

**3** - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

**4** - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	47	27%	2%	98%
Long-term Buy	37	21%	0%	100%
Neutral	86	49%	6%	94%
Underperform	4	2%	0%	100%

As of 5 February 2010

### Other Disclosures

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