

Aqua America, Inc. (WTR)

Rate Relief, Acquisitions Boost EPS; Expected to Continue; Maintain Rating

Price: (5/7/10)	17.39	Rating:	Outperform	FY Dec	2009A	2010E	2011E
52WK H-L:	19 - 15			Q1	0.14A	0.16A	
Market Cap (mil):	2,352.87	Suitability:	Lower Risk	Q2	0.19A	0.20E	
Shares Out (mil):	135.3			Q3	0.25A	0.29E	
Float (mil):	135.7			Q4	0.20A	0.25E	
Avg. Daily Vol (mil):	0.75			Total	0.77A	0.90E	1.00E
		Price Target:	22	FY P/E	22.6	19.3	17.4
Dividend	0.58						
Yield (%)	3.34						

Please refer to Appendix - Important Disclosures and Analyst Certification.

David E. Parker
dparker@rwbaird.com
813.274.7620

Margaret Hughes
mhughes@rwbaird.com
414.765.3968

Action

Maintain Outperform rating. 1Q10 EPS on target; steady rate relief coupled with infrastructure surcharge mechanisms boost revenue 4% YOY, while O&M contained to 1% growth. WTR is returning to historical, consistent net income growth (8-10%); strategic acquisitions could provide upside to this rate. Investment opportunities and constructive regulatory practices support improve earned ROE to historical levels (10.5%). Double-digit EPS growth coupled with a 3% dividend yield provides attractive return profile, in our view.

Summary

- **1Q10.** WTR reported 1Q10 EPS of \$0.16 versus \$0.14 in 1Q09 and our consensus-matching estimate of \$0.15.
- **Pending rate relief requests.** WTR has received \$12.2 million YTD in rate relief with more than \$65 million of rate cases still outstanding. Rate cases are currently pending before nine regulatory bodies, including statewide cases in Pennsylvania, WTR's largest state, New Jersey, and Virginia.
 - An additional \$20 million in rate requests expected to be filed in remainder of 2010, effective in 2011. Rate relief primarily sought to recover infrastructure investments and increased expenses.
- **Opportunistic acquisitions continue to grow customer base.** Management continues to be active on the acquisition front, having made eight acquisitions YTD; hoping to return to historic level of 25-30 tuck-in acquisitions in 2010. Tuck-ins usually smaller in size and in close proximity to WTR's current system.
- **Continued investment opportunities. WTR invested \$67.2 million in 1Q10 with plans to invest over \$300 million for utility system improvements in 2010.**
 - 90-95% to be spent on system upgrades (pipe, mains, etc); less than 10% will be spent on environmental compliance.
- **Baird estimates.** We are maintaining our 2010 and 2011 estimates at \$0.90 and \$1.00, 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 1Q10 EPS of \$0.16 versus \$0.14 in 1Q09 and our consensus-matching estimate of \$0.15.

Figure 1: 1Q10 Results Variance

Aqua America (WTR - NYSE)									
Quarterly Results Variance									
	Quarterly Results			Baird	Variance	Percent of Revenue			
	1Q10	1Q09	% Chg			1Q10	1Q09	Baird	
Revenue	\$ 161	\$ 154	3.9%	\$ 165	(2.5%)				
Operating Expenses	110	108	2.0%	112	(2.3%)	68.4%	69.7%	68.3%	
Operating Income	51	47	8.4%	52	(3.0%)	31.6%	30.3%	31.7%	
Pretax Income	36	31	15.6%	34	5.0%	22.3%	20.0%	20.7%	
Taxes	14	12		13		8.9%	8.1%	8.1%	
Net Income	\$ 22	\$ 18	16.9%	\$ 21	3.7%	13.4%	11.9%	12.6%	
<i>EPS</i>	\$0.16	\$0.14	16.1%	\$0.15	3.3%				
Diluted Shares	137	136		136					

1Q10 nonrecurring and other items of note: None

1Q09 nonrecurring and other items of note: None

Source: Company reports; Estimates of Robert W. Baird & Co.

Outlook

Management expects net income to grow 5-7% in 1H10 with normalized weather and moderate organic customer growth (+1-2%). This net income growth should accelerate to more normalized levels (5-8%) in the 2H10, supported by rate case completions and increased effective rates in Pennsylvania and New Jersey. We also expect WTR to maintain its 60-70% dividend payout ratio, which at current valuations provides a 3.3% dividend yield.

Capital expenditures are expected to grow to over \$300 million in 2010 (~2.5x depreciation), 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 5-8% 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.

Results

Revenue increased by 4% YOY driven by steady rate relief and supplemental DSIC mechanism earnings, despite a -1.1% reduction in sales volume. Management stated that most of this volume decline was due to residential sales (2/3 revenue), though commercial and industrial volumes were solid. Most of this residential decrease is likely due to a very wet winter throughout the Midwest and Northeastern US. Weather remains the primary variable for the duration of 2010, though economic concerns still weigh on residential consumption trends.

Although revenue increased 4%, O&M expense rose only about 1% due to management's continued focus on cost containment. Management stated that it continues to focus on decreasing its efficiency ratio (O&M/revenue) by 50-100 bps (likely the high end of range) versus 2009 levels. Success in rate cases is often partially attributable to WTR's industry-low efficiency ratio, as investment prudence is rarely questioned. O&M management is an important part of WTR's strategy, however, management stated that 1% O&M growth is not sustainable and expects it to return to a more normal run rate (+3-5%) for full year 2010.

Overall operating expenses increased 2% YOY with O&M expenses up 1% YOY, driven by increased property and other taxes (+11%) and increased amortization expense (+15%). Depreciation expenses remained basically flat YOY at \$26.2 million; net PP&E ended 1Q10 at \$3.3 billion. Net interest expense increased \$1.8 million (+11%) YOY to \$18.4 million, reflecting higher debt balances. Management expects full-year interest expense to increase 10% YOY.

Rate Cases

WTR has received \$12.2 million YTD in annualized revenue increases with more than \$65 million of rate cases still outstanding. Rate cases are currently pending before nine regulatory bodies, including statewide cases in Pennsylvania, WTR's largest state, New Jersey, and Virginia. Management is optimistic that both PA and NJ could settle their rate cases without having to go through the litigation process. Optimistically, these rate cases have a slight possibility of settling prior to the summer months, which would afford WTR higher rates during its peak usage period. Realistically, these cases will settle in 3Q10 time frame, but certainly by year-end 2010.

An additional \$20 million in rate requests expected to be filed in remainder of 2010, effective in 2011. Rate cases, in addition to periodic DSIC filings, will be filed in Ohio, Florida, North Carolina, Virginia and possibly Texas. These remaining cases should be distributed throughout 3Q10-4Q10. Rate relief primarily sought to recover infrastructure investments and increased expenses.

In 2009, Pennsylvania also increased its DSIC from 5% to 7.5% of revenue, which should decrease regulatory lag when replacing pipe. The acceptance of DSIC-like mechanisms in other operating states would likely spur increased pipe investment and capital expenditures. Management did not have much additional clarity on the New Jersey DSIC mechanism acceptance; WTR continues to work with the other New Jersey investor-owned utilities to increase knowledge and potentially implementation of a DSIC-like mechanism.

Acquisitions

Management continues to be active on the acquisition front, having made eight acquisitions thus far in 2010. WTR has acquired both water and wastewater systems in NJ, IL, TX, PA, and VA. This demonstrates the company's commitment and success in revenue growth by acquisition strategy, usually focusing on tuck-in acquisitions. These tuck-ins 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. In 2009, customer growth fell to <1% from about 2% in 2008. Management is projecting a more normalized customer growth rate, though still below historic levels, of +1-2% for 2010. Organic growth opportunities are slowly returning to the market, as new home construction seems to be returning to WTR's geographic areas; continued acquisition activity will supplement this organic growth.

Management stated that the acquisition market is clearly improving due to the increased activity level. This may be due in part to the fact that some of WTR's under-performing states have been rightsized to acceptable operating levels. These state management teams are now more focused on company growth instead of just maintenance. 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 Culpeper, Orange, and Fauquier counties. Aqua already operates nine water systems in the area.

Investment Thesis

We rate Aqua America Outperform with a 12-month price target of \$22. Our price target is 22x our 2011 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 3.5%. We believe growth could accelerate beyond this level 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, which also provides significant follow-on investment opportunities as it improves the quality of the 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 advancements in water quality standards that necessitated major water project investments into water treatment systems, Aqua's investment mix is shifting toward pipe replacement as its system quality has generally met the more stringent EPA water quality standards. 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, 5-8% 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.

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.

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

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Recent Price: \$18.08

\$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%	-0.1%	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%	2.4%	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%	0.16	136.8
Q2E	178.4	6.6%	5.1%	114.8	64.4%	5.8%	63.6	35.6%	8.0%	0.96	47.8%	19.35	15.1%	45.2	25.3%	5.8%	39.0%	27.6	15.5%	6.6%	9.9%	0.20	7.1%	0.16	136.4
Q3E	200.0	10.6%	9.1%	115.7	57.8%	5.7%	84.3	42.2%	18.0%	0.96	5.4%	19.55	13.3%	65.7	32.9%	19.3%	39.0%	40.1	20.1%	19.8%	10.4%	0.29	19.6%	0.16	136.5
Q4E	189.9	13.1%	11.6%	114.1	60.1%	6.1%	75.8	39.9%	25.5%	(2.37)	-330.7%	17.89	-0.1%	55.5	29.2%	27.7%	38.5%	34.2	18.0%	28.1%	10.9%	0.25	28.0%	0.17	136.6
2010E	728.7	8.7%	7.2%	454.3	62.3%	4.9%	274.4	37.7%	15.6%	3.01	-9.8%	75.22	9.6%	202.2	27.7%	17.4%	39.0%	123.3	16.9%	18.2%	10.9%	0.90	17.4%	0.59	137.1
2011E	785.6	7.8%	5.6%	484.2	61.6%	6.6%	301.4	38.4%	9.8%	3.62	20.0%	80.14	6.5%	224.9	28.6%	11.2%	39.0%	137.2	17.5%	11.2%	11.5%	1.00	10.6%	0.63	137.8
2012E	840.6	7.0%	4.8%	515.0	61.3%	6.4%	325.6	38.7%	8.0%	3.73	3.0%	89.58	11.8%	239.8	28.5%	6.6%	39.0%	146.3	17.4%	6.6%	11.4%	1.05	5.4%	0.67	139.4

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

Date Printed: 5/7/2010

Fiscal Year: DEC

(in millions)

Aqua America WTR - NYSE

Dave Parker (813) 274-7620

Maggie Hughes (414) 765-3968

Balance Sheet	2005	2006	2007	2008	2009	4Q09
ASSETS						
Cash & Equivalents	11.9	44.0	14.5	14.9	21.9	21.9
Receivables	62.7	72.1	82.9	84.5	78.7	78.7
Inventory	7.8	8.4	8.8	9.8	9.5	9.5
Other	7.6	10.2	9.2	11.8	11.4	11.4
Total Current	90.0	134.7	115.5	121.0	121.6	121.6
Fixed Assets	2,280.0	2,506.0	2,792.8	2,997.4	3,227.3	3,227.3
Goodwill & Intangible Asset	20.2	22.6	36.6	41.0	43.1	43.1
Other Assets	236.6	214.6	282.0	325.6	370.6	370.6
Total Assets	2,626.7	2,877.9	3,226.9	3,485.0	3,762.6	3,762.6
LIAB. & EQUITY						
Current Debt	163.2	150.3	80.8	87.9	87.1	87.1
Payables	55.5	49.4	45.8	50.0	57.9	57.9
Other	44.7	55.9	56.6	55.2	56.1	56.1
Total Current	263.3	255.6	183.2	193.2	201.0	201.0
L/T Debt & Lease	878.4	951.7	1,215.1	1,248.1	1,386.6	1,386.6
Deferred Taxes	250.3	273.2	307.7	355.2	408.6	408.6
Other Liabilities	422.7	475.8	544.7	630.1	657.5	657.5
Preferred Stock	-	-	-	-	-	-
Common Equity	811.9	921.6	976.3	1,058.4	1,108.9	1,108.9
Total Liab. & Equity	2,626.7	2,877.9	3,226.9	3,485.0	3,762.6	3,762.6

Ratio Analysis:

Current Ratio	0.3	0.5	0.6	0.6	0.6	0.6
Working Capital	(\$22)	(\$15)	(\$1)	\$1	(\$14)	(\$14)
Working Cap/Assets	(0.8%)	(0.5%)	(0.0%)	0.0%	(0.4%)	(0.4%)
Inventory Turns	NM	NM	NM	NM	NM	NM
Total Debt/Capital	62%	59%	59%	58%	59%	59%
LT Debt/Equity	108%	103%	124%	118%	125%	125%
EBIT/Interest Expense	3.8x	3.6x	3.3x	3.4x	3.5x	3.5x
Total Debt/EBIT	5.2x	5.2x	5.8x	5.8x	6.1x	6.1x

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

Cash Flow Statement	2005	2006	2007	2008	2009	2010E	2011E
Net Income	91.2	92.0	95.0	97.9	104.4	123.3	137.2
Depreciation & Amort	65.5	75.0	88.0	94.3	114.9	119.0	128.1
Net changes in (CA) & CL	20.5	(14.4)	(14.6)	(9.7)	(8.5)	(7.1)	(7.0)
Deferred taxes/Non-Cash	22.5	18.1	25.8	39.0	47.8	(8.6)	(8.8)
Cash Flow from Operations	199.7	170.7	194.2	221.5	258.6	226.6	249.5
Dividend Payments	(51.1)	(58.0)	(63.8)	(68.5)	(74.7)	(80.5)	(86.5)
Net Capital Expenditures	(237.5)	(271.7)	(238.1)	(267.4)	(283.6)	(280.0)	(290.0)
Free Cash Flow	(\$88.9)	(\$159.0)	(\$107.7)	(\$114.4)	(\$99.7)	(\$133.9)	(\$126.9)
Operating Cash Flow Per Share	1.55	1.30	1.45	1.64	1.90	1.65	1.81
Free Cash Flow Per Share	(0.69)	(1.21)	(0.81)	(0.85)	(0.73)	(0.98)	(0.92)

Du Pont Formula	2005	2006	2007	2008	2009	2010E	2011E
Net Margins (N/S)	18.3%	17.2%	15.8%	15.6%	15.6%	16.9%	17.5%
Assets Turnover (S/A)	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Leverage (A/E)	3.2	3.2	3.2	3.3	3.3	3.4	3.4
Return on Equity	11.7%	10.6%	10.0%	9.6%	9.6%	10.9%	11.5%

Valuation Parameters	2005	2006	2007	2008	2009	2010E	Recent
Price (Common) - WTR	High 29.22	29.79	26.62	22.00	21.50	19.95	18.08
	Low 17.49	20.13	18.86	12.20	16.12	17.07	

Forward P/E Ratio	High	2005	2006	2007	2008	2009	2010E	2011E
	Low	37.0x	34.9x	32.2x	26.4x	25.0x	25.0x	
	Close	23.8x	25.2x	22.8x	14.7x	17.1x	17.1x	
		33.8x	27.6x	25.4x	21.4x	18.9x	18.9x	21.4x

Book Value	\$	2005	2006	2007	2008	2009	2010E	2011E
		6.30	\$6.96	\$7.28	\$7.78	\$8.14	\$8.49	\$8.97
Price/Book Ratio	High	4.6x	4.3x	3.7x	2.8x	2.6x	2.3x	2.4x
	Low	2.8x	2.9x	2.6x	1.6x	2.0x	2.0x	2.0x
	Close	4.3x	3.3x	2.9x	2.6x	2.5x	2.3x	2.3x

EBITDA	\$	2005	2006	2007	2008	2009	2010E	2011E
		\$260.9	\$281.6	\$305.6	\$319.9	\$343.8	\$386.4	\$423.2
Enterprise Value	High	\$4,805	\$4,983	\$4,838	\$4,285	\$4,379	\$4,312	\$4,609
	Low	3,290	3,711	3,801	2,964	3,646	3,916	4,185
EV / EBITDA	High	18.4x	17.7x	15.8x	13.4x	12.7x	11.2x	10.9x
	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

Appendix - Important Disclosures and Analyst Certification



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